

Lake County, Michigan
FINANCIAL STATEMENTS
December 31, 2007

Lake County, Michigan

December 31, 2007

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Lake County, Michigan

TABLE OF CONTENTS

December 31, 2007

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-ix
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Funds	9-10
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	11-12
Statement of Cash Flows - Proprietary Funds	13-14
Statement of Net Assets - Fiduciary Funds	15
Combining Statement of Net Assets - Component Unit Funds	16
Statement of Activities - Component Unit Funds	17
Notes to Financial Statements	18-41
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Statement of Revenues and Other Financing Sources - Budget and Actual	42-43
Statement of Expenditures and Other Financing Uses by Activity - Budget and Actual	44-45
SHERIFF ROAD PATROL FUND	
Budgetary Comparison Schedule	46
JAIL TRV FUND	
Budgetary Comparison Schedule	47
REVENUE SHARING FUND	
Budgetary Comparison Schedule	48
AMBULANCE FUND	
Budgetary Comparison Schedule	49
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	50-56
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	57-63
Combining Statement of Net Assets - Nonmajor Enterprise Funds	64
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Enterprise Funds	65
Combining Statement of Cash Flows - Nonmajor Enterprise Funds	66
Combining Statement of Net Assets - Internal Service Funds	67
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Internal Service Funds	68
Combining Statement of Cash Flows - Internal Service Funds	69
Combining Statement of Fiduciary Assets and Liabilities - Agency Funds	70

Lake County, Michigan

TABLE OF CONTENTS - CONTINUED

December 31, 2007

	<u>Page</u>
OTHER SUPPLEMENTARY INFORMATION - CONTINUED	
COMPONENT UNIT FUNDS	
DRAINAGE DISTRICTS	
Combining Balance Sheet	71
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	72
COUNCIL ON AGING	
Balance Sheet	73
Statement of Revenues, Expenditures, and Changes in Fund Balance	74
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	75-78

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
of Lake County
Baldwin, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Lake County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lake County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lake County Road Commission. The Lake County Road Commission represents 91% and 93%, respectively of the total assets and revenues of the component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for the Road Commission is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the audits of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Lake County as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of Lake County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake County's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 31, 2008

Management's Discussion and Analysis

As management of the *County of Lake*, we offer this narrative overview and analysis of the financial activities of the County, including limited information pertaining to the separately audited Road Commission for the year ended December 31, 2007. For more detailed information, the Road Commission's separately issued financial statements may be obtained from their administrative office.

Financial Highlights

- The assets of the County primary government exceeded its liabilities at the close of the fiscal year by \$12,653,828 (*net assets*). Of this amount, \$6,303,728 (*unrestricted net assets*) may be used to meet the government's ongoing obligations.
- As of the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$4,804,926, a net increase of \$74,296 or 1.6 percent over the prior year. Of this total, 89.5 percent or \$4,302,378 is *available for spending* at the government's discretion (*unreserved and undesignated fund balance*).
- At the end of the fiscal year, unreserved and undesignated fund balance for the General Fund was \$444,451, an amount equal to 9.3 percent of total General Fund expenditures (including operating transfers).
- The primary government's total net bonded debt decreased by \$379,160.

Overview of the Financial Statements

The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets indicate whether the financial position of the County is improving or deteriorating. The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of Lake County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, public works, health and welfare, community and economic development, recreation and cultural functions. The business-type activities primarily represent the administration of the delinquent property tax system.

The government-wide financial statements include not only the County itself (known as the *primary government*), but also three legally separate entities: the Lake County Road Commission, the County Drainage Districts, and the Council on Aging. Financial information for the *component units* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains over 30 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Sheriff Road Patrol, Jail TRV, Revenue Sharing Reserve, and Ambulance Funds each of which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for its General and Special Revenue Funds. A budgetary comparison schedule has been provided herein to demonstrate compliance with the County General Fund and all major Special Revenue Funds budgets.

Proprietary funds. The County maintains two types of proprietary funds. *Enterprise funds* report the same functions as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for the Delinquent Tax Revolving Funds and the Treasurer's Unrestricted Fund which are considered to be major funds. Data from the other nonmajor enterprise funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report.

The County maintains *internal service funds* to account for and allocate costs internally among the County's various functions. The County uses two (2) internal service funds to account for the following functions: County supplies and employee benefits. Because these services predominantly benefit governmental functions, they have been included within *governmental activities* in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *other supplementary information*, including combining statements of the nonmajor governmental funds and internal service funds information.

Government-wide Financial Analysis

Statement of Net Assets

Lake County's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Assets						
Current and other assets	\$ 7,210,114	\$ 7,259,570	\$ 4,917,791	\$ 5,641,969	\$ 12,127,905	\$ 12,901,539
Capital assets	13,986,885	13,565,119	-	-	13,986,885	13,565,119
Total assets	21,196,999	20,824,689	4,917,791	5,641,969	26,114,790	26,466,658
Liabilities						
Current	2,685,304	2,980,443	63,880	22,047	2,749,184	3,002,490
Noncurrent	11,287,387	10,810,340	-	-	11,287,387	10,810,340
Total liabilities	13,972,691	13,790,783	63,880	22,047	14,036,571	13,812,830
Net Assets						
Invested in capital assets – net of related debt	2,542,584	2,499,978	-	-	2,542,584	2,499,978
Restricted	3,507,899	3,850,122	-	-	3,507,899	3,850,122
Unrestricted	1,173,825	683,806	4,853,911	5,619,922	6,027,736	6,303,728
Total net assets	\$ 7,224,308	\$ 7,033,906	\$ 4,853,911	\$ 5,619,922	\$ 12,078,219	\$ 12,653,828

The County's net assets include \$2,499,978 in capital assets comprised of land, buildings, vehicles and equipment less any outstanding related debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Certain other limitations on the use of net assets apply due primarily to legal restrictions. These restricted net assets total \$3,850,122. The remaining balance of unrestricted net assets (\$6,303,728 or 49.8 percent) may be used to meet the government's ongoing obligations.

Statement of Activities

Lake County's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Revenues						
Program revenue:						
Charges for services	\$ 1,361,546	\$ 1,330,745	\$ 675,101	\$ 1,070,199	\$ 2,036,647	\$ 2,400,944
Operating grants and contributions	3,971,276	4,709,734	-	-	3,971,276	4,709,734
Capital grants and contributions	21,058	11,400	-	-	21,058	11,400
General revenues:						
Property taxes	5,499,365	4,520,743	-	-	5,499,365	4,520,743
Investment earnings	201,396	97,893	161,645	186,912	363,041	284,805
Miscellaneous	23,817	46,915	-	-	23,817	46,915
Transfers	391,470	343,886	(391,470)	(343,886)	-0-	-0-
Total revenues	<u>11,469,928</u>	<u>11,061,316</u>	<u>445,276</u>	<u>913,225</u>	<u>11,915,204</u>	<u>11,974,541</u>
Expenses						
General government	2,970,619	2,992,042	-	-	2,970,619	2,992,042
Public safety	5,591,696	6,408,333	-	-	5,591,696	6,408,333
Health and welfare	1,191,411	1,155,879	-	-	1,191,411	1,155,879
Recreation and culture	400	400	-	-	400	400
Comm. and Econ. Development	5,394	21,489	-	-	5,394	21,489
Other	37,003	-	-	-	37,003	-0-
Interest on long-term debt	497,531	673,575	-	-	497,531	673,575
Delinquent tax collection and other						
Business-type activities	-	-	206,765	154,773	206,765	154,773
Total expenses	<u>10,294,054</u>	<u>11,251,718</u>	<u>206,765</u>	<u>154,773</u>	<u>10,500,819</u>	<u>11,406,491</u>
Change in net assets	1,175,874	(190,402)	238,511	758,452	1,414,385	568,050
Restated net assets, beginning of year	6,048,434	7,224,308	4,615,400	4,861,470	10,663,834	12,085,778
Net assets, end of year	<u>\$ 7,224,308</u>	<u>\$ 7,033,906</u>	<u>\$ 4,853,911</u>	<u>\$ 5,619,922</u>	<u>\$ 12,078,219</u>	<u>\$ 12,653,828</u>

Governmental Activities

The preceding table shows that the net assets of governmental activities decreased by approximately \$190,000 or 2.6 percent during 2007 as compared to an increase of approximately \$1.2 million in the prior year.

Business-type Activities

Net assets of the County's business-type activities increased \$758,452. Net assets of the Treasurer's Unrestricted Fund and nonmajor funds decreased \$63,031 and the Delinquent Tax Fund increased \$821,483. Net assets were also increased by \$48,340 and decreased by \$40,781 in the Treasurer's Unrestricted Fund and the Delinquent Tax Revolving Fund, respectively, due to prior period adjustments.

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. In particular, *unreserved fund balance* serves as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$4,804,926, an increase of \$74,296. Approximately 89.5 percent of this total amount (\$4,302,378) constitutes *unreserved/undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is either *reserved* to indicate that it is not available for new spending (\$501,611), or is *designated* to support other projects (\$937).

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, the total fund balance was \$445,388, while the unreserved/undesignated fund balance of the General Fund was \$444,451, an amount equal to 9.3 percent of total General Fund expenditures. This portion of General Fund unreserved/undesignated fund balance is consistent with standards issued by the Governmental Finance Officers Association.

The fund balance of the County's General Fund decreased by \$211,453 during the current fiscal year. Actual General Fund revenues and other financing sources were less than the amount budgeted by \$237,273. This less than budget amount, coupled with total expenditures and other financing uses being under budget by \$11,214 reduced the fund balance at year-end by \$226,059 less than originally budgeted. These budget variances were mainly a result of a reduction of the amount transferred to the General Fund from the Delinquent Tax Revolving fund.

The Sheriff Road Patrol Fund has a total fund balance of \$490,337, which increased by \$67,281 over the prior year. The increase was caused by a \$14,177 decrease in revenues over the final amended budget and a \$91,976 savings in current expenditures over appropriations.

The Jail TRV Fund has a fund deficit of \$252,545, which was decreased by \$88,050 from the prior year deficit position. This decrease is mainly due to a \$257,250 decrease in revenues and other financing sources over final amended budgeted amounts including less transfers in from other funds.

The Revenue Sharing Reserve has a total fund balance of \$1,716,589. This fund, authorized by shifting forward the collection date for the County portion of the property tax levy from December to July, is intended to provide a reserve from which the County may draw amounts to replace revenues previously received from the now suspended State Revenue Sharing program. The balance in this fund is projected to be exhausted in year 2009 or 2010 at which time the County is to revert to an alternate State sponsored revenue source.

The Ambulance Fund has a total fund balance of \$789,346, which increased by \$224,241 over the prior year.

General Fund Budgetary Highlights

Lake County's budget is a dynamic document. Although adopted in December (prior to the start of the year), the budget is frequently amended during the course of the year to reflect changing operational demands.

Actual General Fund revenues and other financing sources totaled \$4,577,686, \$237,273 below the final amended budget. Actual revenues varied from the final amended budget. There were some variations in several individual line items but the largest to account for most of the difference was the transfer in from the Delinquent Tax Revolving Fund of \$74,854, which was budgeted for \$468,431 in 2007.

The original General Fund expenditure budget of \$4,650,672 was revised to \$4,800,353 for an increase of \$149,681 or 3.2 percent. A majority of the amendments were simply inflationary modifications in various activities to better align the budgetary figures once up-to-date data became available.

Actual County expenditures for 2007 were \$11,214 under budget. General fund actual expenditures came in at \$4,789,139 and the final amended budget was \$4,800,353, which was a .2% difference mainly due to good control by the County to assure budgetary expenditures were controlled in 2007.

Capital Asset and Debt Administration

Capital assets. As of December 31, 2007, the County's investment in capital assets, net of accumulated depreciation, for its governmental activities amounted to \$16,865,119. (These capital assets do not include those of the separately audited Road Commission component unit). This investment in capital assets includes land, buildings and improvements, vehicles. The net increase in the County's investment in capital assets for the primary government in the current fiscal year amounted to \$3,480,301, less a net increase of \$602,067 in accumulated depreciation, for a net increase of \$2,878,234 or 20.6 percent.

County of Lake's Capital Assets (net of depreciation)

	Primary <u>Government</u>
Land and land improvements	\$ 55,554
Buildings and improvements	13,450,917
Vehicles	<u>58,648</u>
Total	<u>\$13,565,119</u>

Long-term debt. At the end of the current year, the County Primary Government had total debt outstanding of \$11,258,740. (This amount does not include the debt of the separately audited Road Commission component unit). All of the bonds are backed by the County's full faith and credit.

County of Lake's Bonded Indebtedness

	Primary Government
General obligation bonds	\$11,065,141
Accrued sick and vacation	<u>193,599</u>
	<u>\$11,258,740</u>

New debt for the 2005 USDA Building Authority Bonds was issued during the current year totaling \$95,644 and \$474,804 in principal payments were made on the bonded debt of the County during the year. There is significantly more information related to debt detailed in Note G. The County's outstanding general obligation debt is well under the current debt limitation of \$47,415,532 (10 percent of taxable valuation).

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the County's budget for the 2008 year:

- The uncertainty over the State's economy will likely result in additional decreases in state funding.
- Healthcare costs will continue to escalate at a rate higher than inflation and require continued cost containment measures.
- The loss of State Share revenues
- Anticipated increase in revenues in the TRV Project fund
- Various predetermined labor union issues
- Anticipated new telecommunications funding options for 911 Central Dispatch

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Lake County
800 Tenth Street, Suite 200
Baldwin, Michigan 49304

BASIC FINANCIAL STATEMENTS

Lake County, Michigan

STATEMENT OF NET ASSETS

December 31, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,047,226	\$ 3,279,998	\$ 6,327,224	\$ 1,156,226
Investments	524,979	970,476	1,495,455	-
Receivables				
Current taxes	2,136,790	-	2,136,790	283,656
Delinquent taxes	-	1,140,499	1,140,499	-
Accounts	18,700	35,871	54,571	554,893
Other	-	1,662	1,662	1,710
Inventories	9,831	-	9,831	377,365
Internal balances	372,372	(372,372)	-0-	-
Due from other governmental units				
Federal/State	1,065,729	-	1,065,729	-
Local	83,943	206,151	290,094	-
Total current assets	7,259,570	5,262,285	12,521,855	2,373,850
Noncurrent assets				
Investments	-	379,684	379,684	-
Capital assets not being depreciated	24,800	-	24,800	91,534
Capital assets, net of accumulated depreciation	13,540,319	-	13,540,319	3,224,697
Total noncurrent assets	13,565,119	379,684	13,944,803	3,316,231
TOTAL ASSETS	20,824,689	5,641,969	26,466,658	5,690,081
LIABILITIES				
Current liabilities				
Accounts payable	173,570	3,735	177,305	68,707
Accrued liabilities	202,891	-	202,891	38,676
Accrued interest payable	179,654	-	179,654	-
Due to other governmental units				
Federal/State	132,320	18,312	150,632	-
Current portion of compensated absences	48,400	-	48,400	23,934
Current portion of long-term debt	400,000	-	400,000	-
Deferred revenue	1,843,608	-	1,843,608	519,365
Total current liabilities	2,980,443	22,047	3,002,490	650,682
Noncurrent liabilities				
Noncurrent portion of compensated absences	145,199	-	145,199	97,397
Noncurrent portion of long-term debt	10,665,141	-	10,665,141	-
Total noncurrent liabilities	10,810,340	-0-	10,810,340	97,397
TOTAL LIABILITIES	13,790,783	22,047	13,812,830	748,079
NET ASSETS				
Invested in capital assets, net of related debt	2,499,978	-	2,499,978	3,316,231
Restricted for:				
Debt service	321,957	-	321,957	-
Public safety	943,277	-	943,277	-
Other purposes	2,584,888	-	2,584,888	1,625,771
Unrestricted	683,806	5,619,922	6,303,728	-
TOTAL NET ASSETS	\$ 7,033,906	\$ 5,619,922	\$ 12,653,828	\$ 4,942,002

See accompanying notes to financial statements.

Lake County, Michigan

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities								
General government	\$ 2,992,042	\$ 204,537	\$ 1,101,793	\$ -	\$ (1,685,712)	\$ -	\$ (1,685,712)	\$ -
Public safety	6,408,333	877,519	3,349,320	11,400	(2,170,094)	-	(2,170,094)	-
Health and welfare	1,155,879	248,689	258,621	-	(648,569)	-	(648,569)	-
Recreation and cultural	400	-	-	-	(400)	-	(400)	-
Community and economic development	21,489	-	-	-	(21,489)	-	(21,489)	-
Interest on long-term debt	673,575	-	-	-	(673,575)	-	(673,575)	-
Total governmental activities	11,251,718	1,330,745	4,709,734	\$ 11,400	(5,199,839)	-0-	(5,199,839)	-0-
Business-type activities:								
Treasurer's unrestricted	42,335	136,287	-	-	-	93,952	93,952	-
Delinquent tax revolving	-	788,395	-	-	-	788,395	788,395	-
Other	112,438	145,517	-	-	-	33,079	33,079	-
Total business-type activities	154,773	1,070,199	-0-	-0-	-0-	915,426	915,426	-0-
Total primary government	\$ 11,406,491	\$ 2,400,944	\$ 4,709,734	\$ 11,400	(5,199,839)	915,426	(4,284,413)	-0-
Component units:								
Road Commission	3,680,381	550,040	2,799,783	674,986	-	-	-0-	344,428
Council on Aging	232,059	-	-	-	-	-	-0-	(232,059)
Drainage Districts	2,426	-	-	-	-	-	-0-	(2,426)
Total component units	\$ 3,914,866	\$ 550,040	\$ 2,799,783	\$ 674,986	-0-	-0-	-0-	109,943
General revenues:								
Property taxes					4,520,743	-	4,520,743	283,752
Investment earnings					97,893	186,912	284,805	42,538
Miscellaneous					46,915	-	46,915	11,567
Transfers					343,886	(343,886)	-0-	-
Total general revenues and transfers					5,009,437	(156,974)	4,852,463	337,857
Change in net assets					(190,402)	758,452	568,050	447,800
Restated net assets, beginning of the year					7,224,308	4,861,470	12,085,778	4,494,202
Net assets, end of the year					\$ 7,033,906	\$ 5,619,922	\$ 12,653,828	\$ 4,942,002

See accompanying notes to financial statements.

Lake County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2007

	General	Sheriff Road Patrol	Jail TRV
ASSETS			
Cash and cash equivalents	\$ 1,427,257	\$ 601,311	\$ (920,025)
Investments	-	-	-
Receivables			
Taxes	422,776	1,174,877	-
Accounts	-	-	-
Due from other funds	361,470	-	-
Due from other governmental units			
Federal/State	57,209	-	766,997
Local	70,363	-	-
TOTAL ASSETS	\$ 2,339,075	\$ 1,776,188	\$ (153,028)
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ 76,753	\$ 5,464	\$ 46,885
Accrued liabilities	100,345	19,707	52,632
Due to other funds	1,716,589	-	-
Due to other governmental units			
Federal/State	-	-	-
Deferred revenue	-	1,260,680	-
TOTAL LIABILITIES	1,893,687	1,285,851	99,517
FUND BALANCES (DEFICITS):			
Reserved for debt service	-	-	-
Unreserved			
Designated for:			
Other purposes	937	-	-
Undesignated, reported in:			
General Fund	444,451	-	-
Special revenue funds	-	490,337	(252,545)
Capital projects fund	-	-	-
TOTAL FUND BALANCES (DEFICITS)	445,388	490,337	(252,545)
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 2,339,075	\$ 1,776,188	\$ (153,028)

See accompanying notes to financial statements.

Revenue Sharing Reserve	Ambulance	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 828,722	\$ 1,017,187	\$ 2,954,452
-	-	524,979	524,979
-	539,137	-	2,136,790
-	-	18,700	18,700
1,716,589	-	16,000	2,094,059
-	-	241,523	1,065,729
-	-	13,580	83,943
<u>\$ 1,716,589</u>	<u>\$ 1,367,859</u>	<u>\$ 1,831,969</u>	<u>\$ 8,878,652</u>
\$ -	\$ -	\$ 44,124	\$ 173,226
-	-	30,207	202,891
-	-	5,092	1,721,681
-	-	132,320	132,320
-	578,513	4,415	1,843,608
-0-	578,513	216,158	4,073,726
-	-	501,611	501,611
-	-	-	937
-	-	-	444,451
1,716,589	789,346	452,004	3,195,731
-	-	662,196	662,196
<u>1,716,589</u>	<u>789,346</u>	<u>1,615,811</u>	<u>4,804,926</u>
<u>\$ 1,716,589</u>	<u>\$ 1,367,859</u>	<u>\$ 1,831,969</u>	<u>\$ 8,878,652</u>

Lake County, Michigan

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2007

Total fund balance - governmental funds **\$ 4,804,926**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 15,993,946	
Accumulated depreciation is	<u>(2,428,827)</u>	
Capital assets, net		13,565,119

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	102,255
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Direct County obligations	\$ 11,065,141	
Accrued interest payable	179,654	
Compensated absences	<u>193,599</u>	
		<u>(11,438,394)</u>

Net assets of governmental activities	<u>\$ 7,033,906</u>
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See accompanying notes to financial statements.

Lake County, Michigan

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2007

	General	Sheriff Road Patrol	Jail TRV
REVENUES			
Taxes	\$ 2,805,960	\$ 1,175,433	\$ -
Licenses and permits	9,734	-	-
Intergovernmental			
Federal/State	595,808	-	2,983,417
Charges for services	605,589	-	-
Fines and forfeits	9,110	-	-
Interest and rents	89,258	-	-
Other	126,061	12,283	47,761
TOTAL REVENUES	4,241,520	1,187,716	3,031,178
EXPENDITURES			
Current			
General government	2,613,614	-	-
Public safety	1,385,281	925,071	2,360,208
Community and economic development	19,360	-	-
Health and welfare	230,465	-	-
Other	48,051	-	-
Capital outlay	103,673	74,281	45,762
Debt service	-	-	715,458
TOTAL EXPENDITURES	4,400,444	999,352	3,121,428
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(158,924)	188,364	(90,250)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Transfers in	336,166	-	2,200
Transfers out	(388,695)	(121,083)	-
TOTAL OTHER FINANCING SOURCES (USES)	(52,529)	(121,083)	2,200
NET CHANGE IN FUND BALANCES	(211,453)	67,281	(88,050)
Fund balances (deficits), beginning of year	656,841	423,056	(164,495)
Fund balances (deficits), end of year	\$ 445,388	\$ 490,337	\$ (252,545)

See accompanying notes to financial statements.

Revenue Sharing Reserve	Ambulance	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 539,350	\$ -	\$ 4,520,743
-	-	-	9,734
-	-	690,049	4,269,274
-	-	761,919	1,367,508
-	-	-	9,110
-	-	240,976	330,234
-	-	24,722	210,827
-0-	539,350	1,717,666	10,717,430
-	-	210,152	2,823,766
-	-	1,182,623	5,853,183
-	-	-	19,360
-	315,109	553,126	1,098,700
-	-	-	48,051
-	-	11,576	235,292
-	-	288,854	1,004,312
-0-	315,109	2,246,331	11,082,664
-0-	224,241	(528,665)	(365,234)
-	-	95,644	95,644
-	-	930,555	1,268,921
(210,715)	-	(204,542)	(925,035)
(210,715)	-0-	821,657	439,530
(210,715)	224,241	292,992	74,296
1,927,304	565,105	1,322,819	4,730,630
<u>\$ 1,716,589</u>	<u>\$ 789,346</u>	<u>\$ 1,615,811</u>	<u>\$ 4,804,926</u>

Lake County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

Net change in fund balances - total governmental funds \$ 74,296

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 265,990	
Depreciation expense	<u>(687,756)</u>	
Excess of depreciation expense over capital outlay		(421,766)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

(Decrease) in net assets of Internal Service Funds		(59,208)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Loan principal retirement	\$ 474,804	
Bond proceeds	(95,644)	
(Increase) in accrued interest payable	(144,067)	
(Increase) in accrued compensated absences	<u>(18,817)</u>	
		<u>216,276</u>

Change in net assets of governmental activities	<u>\$ (190,402)</u>
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See accompanying notes to financial statements.

Lake County, Michigan

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2007

	Business-type		
	Treasurer's Unrestricted	Delinquent Tax Revolving	Nonmajor Enterprise Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,048,296	\$ 2,163,359	\$ 68,343
Investments	258,737	711,739	-
Receivable			
Accounts	13,371	-	22,500
Interest	1,662	-	-
Delinquent taxes	36,412	1,104,087	-
Inventories	-	-	-
Due from other funds	5,060	100	-
Due from other governmental units			
Local	14,478	191,673	-
Total current assets	1,378,016	4,170,958	90,843
Noncurrent assets			
Investments	379,684	-	-
TOTAL ASSETS	1,757,700	4,170,958	90,843
LIABILITIES			
Current liabilities			
Accounts payable	-	-	3,735
Due to other funds	377,532	-	-
Due to other governmental units	18,312	-	-
TOTAL LIABILITIES	395,844	-0-	3,735
NET ASSETS			
Restricted for employee benefits	-	-	-
Unrestricted	1,361,856	4,170,958	87,108
TOTAL NET ASSETS	\$ 1,361,856	\$ 4,170,958	\$ 87,108

See accompanying notes to financial statements.

Activities	Governmental Activities
Total	Internal Service Funds
\$ 3,279,998	\$ 92,774
970,476	-
35,871	-
1,662	-
1,140,499	-
-0-	9,831
5,160	-
206,151	-
5,639,817	102,605
379,684	-
6,019,501	102,605
3,735	344
377,532	6
18,312	-
399,579	350
-0-	96,750
5,619,922	5,505
<u>\$ 5,619,922</u>	<u>\$ 102,255</u>

Lake County, Michigan

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2007

	Business-type		
	Treasurer's Unrestricted	Delinquent Tax Revolving	Nonmajor Enterprise Funds
OPERATING REVENUES			
Charges for services	\$ 125,296	\$ 341,858	\$ 138,025
Interest and penalties on taxes	10,991	446,537	-
Other	-	-	7,492
TOTAL OPERATING REVENUES	136,287	788,395	145,517
OPERATING EXPENSES			
Other	42,335	-	112,438
OPERATING INCOME (LOSS)	93,952	788,395	33,079
NONOPERATING REVENUES			
Interest revenue	77,872	107,942	1,098
INCOME (LOSS) BEFORE TRANSFERS	171,824	896,337	34,177
TRANSFERS OUT	(269,032)	(74,854)	-
CHANGE IN NET ASSETS	(97,208)	821,483	34,177
Net assets, beginning of year	1,410,724	3,390,256	52,931
Prior period adjustments	48,340	(40,781)	-
Net assets, end of year	<u>\$ 1,361,856</u>	<u>\$ 4,170,958</u>	<u>\$ 87,108</u>

See accompanying notes to financial statements.

Activities	Governmental Activities
Total	Internal Service Funds
\$ 605,179	\$ 1,995,494
457,528	-
7,492	-
1,070,199	1,995,494
154,773	2,054,702
915,426	(59,208)
186,912	-
1,102,338	(59,208)
(343,886)	-
758,452	(59,208)
4,853,911	161,463
7,559	-
<u>\$ 5,619,922</u>	<u>\$ 102,255</u>

Lake County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2007

	Business-type		
	Treasurer's Unrestricted	Delinquent Tax Revolving	Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 152,506	\$ 406,831	\$ 147,017
Cash paid to suppliers	(59,087)	-	(114,650)
Cash received from/(paid to) other funds - net	30,902	-	-
Cash paid to local units	(4,329)	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	119,992	406,831	32,367
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out	(269,032)	(74,854)	-
NET CASH (USED) BY NONCAPITAL FINANCING ACTIVITIES	(269,032)	(74,854)	-0-
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(231,564)	(711,739)	-
Maturity of investments	339,685	418,591	-
Interest revenue	77,872	107,942	1,098
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	185,993	(185,206)	1,098
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,953	146,771	33,465
Cash and cash equivalents, beginning of year	1,011,343	2,016,588	34,878
Cash and cash equivalents, end of year	<u>\$ 1,048,296</u>	<u>\$ 2,163,359</u>	<u>\$ 68,343</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 93,952	\$ 788,395	\$ 33,079
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
(Increase) decrease in receivables	16,219	(220,928)	1,500
(Increase) decrease in due from local units	(4,329)	(137,767)	-
Decrease in due from other funds	30,902	-	-
Increase (decrease) in accounts payable	(1,390)	(1,731)	(2,212)
(Decrease) in accrued liabilities	-	(3,492)	-
(Decrease) in due to other governmental units	(15,362)	(17,646)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 119,992	\$ 406,831	\$ 32,367

See accompanying notes to financial statements.

Activities	Governmental Activities
Total	Internal Service Funds
\$ 706,354	\$ 1,995,835
(173,737)	(24,881)
30,902	(2,029,506)
(4,329)	-
559,190	(58,552)
(343,886)	-
(343,886)	-0-
(943,303)	-
758,276	-
186,912	-
1,885	-0-
217,189	(58,552)
3,062,809	151,326
\$ 3,279,998	\$ 92,774
\$ 915,426	\$ (59,208)
(203,209)	-
(142,096)	341
(5,333)	315
(3,492)	-
(33,008)	-
\$ 528,288	\$ (58,552)

Lake County, Michigan

Fiduciary Funds

STATEMENT OF NET ASSETS

December 31, 2007

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 454,285
Due from governmental units - State	<u>36,113</u>
TOTAL ASSETS	<u>\$ 490,398</u>
LIABILITIES	
Undistributed collections payable	\$ 107,412
Deposits payable	48,168
Due to other governmental units	
Federal/State	248,479
Local	34,325
Due to others	<u>52,014</u>
TOTAL LIABILITIES	<u>\$ 490,398</u>

See accompanying notes to financial statements.

Lake County, Michigan

Component Unit Funds

COMBINING STATEMENT OF NET ASSETS

December 31, 2007

	Road Commission	Council on Aging	Drainage Districts	Total Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 909,864	\$ 238,237	\$ 8,125	\$ 1,156,226
Accounts receivable				
State trunkline maintenance	73,575	-	-	73,575
Due on county road agreements	67,540	-	-	67,540
Motor vehicle highway funds	413,778	-	-	413,778
Other	1,710	-	-	1,710
Taxes receivable	-	283,656	-	283,656
Inventories				
Equipment material and parts	31,384	-	-	31,384
Road materials	345,981	-	-	345,981
Total current assets	1,843,832	521,893	8,125	2,373,850
Noncurrent assets				
Capital assets not being depreciated	91,534	-	-	91,534
Capital assets, net of accumulated depreciation	3,224,697	-	-	3,224,697
Total noncurrent assets	3,316,231	-0-	-0-	3,316,231
TOTAL ASSETS	5,160,063	521,893	8,125	5,690,081
LIABILITIES				
Current liabilities				
Accounts payable	68,707	-	-	68,707
Accrued liabilities	38,676	-	-	38,676
Deferred revenue	215,000	304,365	-	519,365
Current portion of compensated absences	23,934	-	-	23,934
Total current liabilities	346,317	304,365	-0-	650,682
Noncurrent liabilities				
Compensated absences	97,397	-	-	97,397
TOTAL LIABILITIES	443,714	304,365	-0-	748,079
NET ASSETS				
Invested in capital assets	3,316,231	-	-	3,316,231
Restricted for other purposes	1,400,118	217,528	8,125	1,625,771
TOTAL NET ASSETS	\$ 4,716,349	\$ 217,528	\$ 8,125	\$ 4,942,002

See accompanying notes to financial statements.

Lake County, Michigan

Component Unit Funds

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Drainage Districts	\$ 2,426	\$ -	\$ -	\$ -	\$ (2,426)
Council on Aging	232,059	-	-	-	(232,059)
Road Commission	3,680,381	550,040	2,799,783	674,986	344,428
TOTALS	\$ 3,914,866	\$ 550,040	\$ 2,799,783	\$ 674,986	109,943
General revenues					
Taxes					283,752
Investment earnings					42,538
Miscellaneous					11,567
Total general revenues					337,857
CHANGE IN NET ASSETS					447,800
Net assets, beginning of year					4,494,202
Net assets, end of year					\$ 4,942,002

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County of Lake, Michigan was organized in 1872 and covers an area of approximately 572 square miles with the County seat located in the Village of Baldwin, Michigan. The County operates under an elected Board of Commissioners of nine (9) members and provides services to its approximately 8,500 residents in many areas including law enforcement, administration of justice, community enrichment and development, public works, health and welfare, and recreation and culture. Education is provided to citizens through three (3) local School Districts, four (4) Intermediate School Districts, and a Community College located in the County. The School Districts and College are separate governmental entities whose financial statements are not included herein in accordance with the National Council on Governmental Accounting (NCGA) Statement 3.

The financial statements of the County have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to County governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Lake County (primary government) and its component units. The component units described in Sections 2 and 3 below are included in the County's reporting entity because of the significance of their operational or financial relationship with the County.

2. Blended Component Units

The Lake County Building Authority is governed by a five (5) member Board appointed by the County Board of Commissioners. Although it is legally separate from the County, the Lake County Building Authority is reported as if it were part of the (blended) primary government because its sole purpose is to finance and construct the County's public buildings.

3. Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, Lake County remains financially accountable for these entities, or the nature and significance of the relationship between these entities and Lake County is such that exclusion of these entities would render the financial statements misleading or incomplete.

The Lake County Road Commission is responsible for the maintenance and construction of the County road system. The Road Commission operations are financed primarily from the State distribution of gas and weight taxes, Federal financial assistance, and contributions from other local government units within the County. The three (3) Board Members of the Road Commission are elected. This component unit is audited individually and complete financial statements may be obtained from the Road Commission's administrative office.

The Lake County Council on Aging is governed by 19 appointees from various local aging assistance agencies. One of the members is from the Lake County Board of Commissioners. The Council on Aging is a nonprofit corporation dedicated to identifying the needs of seniors of the County and establishing long and short range goals to address those needs. The County Treasurer acts as a fiscal agent of all funds generated by a special millage and handles all financial aspects of the Council. The Lake County Council on Aging was not audited separately.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Units - continued

The Lake County Drainage Districts come under the jurisdiction of the Lake County Road Commissioner due to the fact Lake County does not have a Drain Commissioner. This includes planning, developing, and maintaining surface water drainage systems. A complete file of finance, construction, and maintenance is maintained for each of the drains. The Road Commissioner has authority to spend up to \$2,500 per mile on drain maintenance and may borrow up to \$300,000 from any source to provide for maintenance of a drain without Board of Commissioner approval and without going through the Municipal Finance Division, State of Michigan. The Road Commissioner has authority to levy special assessments on properties benefiting from maintenance. The Drainage Districts are financially accountable to the County because bond issuances greater than \$300,000 require County authorization and are backed by the full faith and credit of the County. The Lake County Drainage Districts have not been audited separately.

4. Joint Ventures

The District 10 Health Department is a joint venture between 10 counties as detailed in the formation agreement between the counties, and was established to provide public health services to the 10 county regions. A copy of the agreement can be obtained at the County's clerk's office. Lake County appoints two (2) of the 20 members. All ten (10) Counties provide annual appropriations and pass-through the statutory amount of cigarette tax funding to subsidize operations. Lake County's contribution for the year ended December 31, 2007, was \$73,739.

5. Jointly Governed Organizations

The West Michigan Community Mental Health System provides comprehensive mental health services to Lake, Mason, and Oceana Counties. Operating revenues are derived from Federal, State, and local governments as well as from fees for services. The West Michigan Community Mental Health System is governed by a twelve (12) member Board appointed by the Board of Commissioners of the three (3) Counties it services. Lake County appropriated \$55,250 as its operating contribution to the West Michigan Community Mental Health System for the County's year ended December 31, 2007. A copy of their audit may be obtained at their administrative offices.

The West Michigan Area Agency on Aging provides comprehensive services to older individuals residing in ten (10) west Michigan counties. Operating revenues are derived from Federal, State, and local governments as well as fees for services. The West Michigan Area Agency on Aging is governed by a twenty (20) member Board appointed by the Board of Commissioners of the ten (10) Counties it services. A copy of the Area Agency on Aging audit may be obtained at their administrative offices.

Lake County, in conjunction with twenty-two (22) other Counties, has entered into an agreement that created the Northern Michigan Substance Abuse Commission. This organization's Board is composed of thirty-six (36) members, of which one (1) is appointed by Lake County. The County's financial responsibility is to pass through a portion of the Convention and Tourism revenues received to the Commission. For the year ended December 31, 2007, the County passed through \$30,431.

Five CAP, Inc. is a non-profit corporation formed under the laws of the State of Michigan. This organization's Board is composed of fifteen (15) members, of which one (1) is appointed by Lake County. The organization receives all of its funding from State and Federal grants and, as a result, the County has no financial responsibility other than potential liability related to appropriate use of the Federal funds passed through to Five CAP, Inc. The County passed through to Five CAP, Inc. as a subrecipient \$27,018 in Federal grant dollars.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the County's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the County are:

- a. The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Sheriff's Road Patrol Fund is used to report road patrol services that are financed primarily by taxes and expenditures within the fund all to be used for the operation of the system.
- c. The Revenue Sharing Reserve Fund was established in 2004 to account for the shift of State Revenue Sharing dollars from State to local funding.
- d. The Jail TRV Fund is used to report jail services that are financed primarily by Federal and State grants and expenditures within the fund all to be used for the operation of the system.
- e. The Ambulance Fund is used to report ambulance services that are financed primarily by taxes and expenditures within the fund all to be used for the operation of the ambulance system.
- f. The Delinquent Tax Revolving Funds account for money advanced by the County to other local taxing units and various county funds to pay for their delinquent real property taxes. Revenues are generated by the collection of the delinquent real property taxes, penalties, and interest.
- g. The Treasurer's Unrestricted Fund accounts for interest collected on delinquent taxes and funds are subsequently relinquished to the proper authority.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary funds since assets equal liabilities.

8. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

9. Cash and Cash Equivalents

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the County's investments. Cash equivalents consist of temporary investments in certificates of deposit and mutual funds with a maturity from date of purchase of 90 days or less.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Investments

Investments consist of certificates of deposit and U.S. Treasury bonds with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

11. Receivables

Receivables consist of amounts due from governmental units for various financial assistance programs; taxes; accounts; and other receivables related to current and delinquent tax levies, charges for services, interest, and other related activities.

12. Inventories

Inventories of the Central Stores (Internal Service) Fund consist of miscellaneous office supplies on hand for resale, which are stated at the lower of first-in, first-out cost or market.

Inventories of the Road Commission (Component Unit) consist of various operating parts, supplies, and road material and are stated at cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

13. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year.

Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	20 - 30 years
Buildings and improvements	10 - 50 years
Equipment	5 - 15 years
Vehicles	5 years

COMPONENT UNIT - ROAD COMMISSION

Capital assets which include property, equipment, and infrastructure assets (road, bridges, and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Capital Assets - continued

COMPONENT UNIT - ROAD COMMISSION - CONTINUED

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the Road Commission.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals, and similar items) in 2007 were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure follows:

Buildings	30 - 50 years
Road equipment	5 - 8 years
Shop equipment	10 years
Office equipment	4 - 10 years
Engineering equipment	4 - 10 years
Infrastructure - bridges	12 - 50 years
Infrastructure - roads	5 - 30 years
Infrastructure - traffic signals	15 years

14. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

15. Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds and component units, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Interfund Transactions - continued

Internal Service Funds are used to record charges for services to all County departments and funds as operating transfers or operating revenue. All County funds record these payments to the Internal Service Funds as operating transfers or operating expenditures/expenses.

16. Accrued Compensated Absences

In accordance with County personnel policies and/or contracts negotiated with the various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested vacation and sick leave earned as of December 31, 2007, including related payroll taxes, is recorded in the government-wide financial statements.

17. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with the modified accrual basis used to reflect actual results in the Fund financial statements. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The County employs the following procedures in establishing budgets:

- a. Prior to October 1, County departments in conjunction with the Clerk's Office, prepare and submit their proposed operating budgets to the Ways and Means Committee who reviews and makes recommendations for the fiscal year commencing the following January 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to December 31, the budgets are legally enacted through passage of a budget resolution.
- d. The budgets are legally adopted at the activity, functional, and account level for the General Fund and the fund level for the Special Revenue Funds. Budgetary transfers between funds and amendments to total fund budgets are not permitted without Board approval. For control purposes, all fund budgets are maintained at the activity and account level. The Clerk is authorized to transfer budget amounts between accounts without Board approval.
- e. Budgets for certain Capital Projects Funds are made on a project basis spanning more than one year.
- f. The County does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. All unexpended appropriations lapse at year-end.
- g. Budgeted amounts are reported as originally adopted or as amended by the Board of Commissioners during the year. Individual amendments were not material to the original appropriations that were adopted.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**18. Comparative Data**

Comparative data for the year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

19. Federal Programs

Federal Programs are accounted for in specific Special Revenue Funds or as part of the various fund types to which the programs pertain.

NOTE B: POOLING OF CASH, CASH EQUIVALENTS, AND INVESTMENTS AND CASH OVERDRAFT

The County utilizes pooled cash accounts for approximately thirty-seven (37) funds. Cash overdrafts of individual funds as of December 31, 2007, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
Special Revenue Funds			
Jail TRV	\$(920,025)	\$ -	\$(920,025)
Village of Baldwin Officer	(186)	-	(186)
Pleasant Plains Officer	(107)	-	(107)
Yates Township Officer	(2,427)	-	(2,427)
Emergency 911	(190,423)	-	(190,423)
Friend of the Court	(51,760)	-	(51,760)
Building Inspection	(17,061)	-	(17,061)
Crime Victims	(5,176)	-	(5,176)
Law Library	(21,150)	-	(21,150)
Secondary Road Patrol	(10,445)	2,000	(8,445)
Child Care Probate	(10,875)	14,324	3,449
Internal Service Fund			
Central Stores	(4,326)	-	(4,326)
TOTAL REPORTING ENTITY	\$(1,233,961)	\$ 16,324	\$(1,217,637)

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The County utilizes various pooled cash accounts and investments for approximately thirty-five (35) funds. The County's pooled cash accounts consist of a common checking account and mutual funds.

The County's pooled cash accounts and investments are utilized by the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Internal Service Funds, (except for the Delinquent Tax Revolving Funds), Trust and Agency Funds, and the component unit funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents caption in the applicable balance sheet/statement of net assets.

The other funds of the County utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit and mutual funds are held separately by several of the County's funds.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles:

- a. Bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. United States government or Federal agency obligation repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of December 31, 2007, the carrying amounts and bank balance for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 5,276,951	\$ 5,406,244
Money market savings	902,326	853,714
Certificates of deposit	<u>1,541,182</u>	<u>1,541,182</u>
Total primary government	7,720,459	7,801,140
COMPONENT UNITS		
Checking	541,905	619,985
Certificates of deposit	<u>614,221</u>	<u>614,221</u>
Total primary government	1,156,126	1,234,206
FIDUCIARY FUNDS		
Checking	<u>454,285</u>	<u>454,285</u>
TOTAL REPORTING ENTITY	<u>\$ 9,330,870</u>	<u>\$ 9,489,631</u>

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits of the County are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the County. As of December 31, 2007, the primary government and component unit accounts were insured by the FDIC for \$235,052 and the amount of \$9,254,579 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the County held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

As of December 31, 2007, the carrying amounts and market values for each investment are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's/ S & P Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
Insured or registered for which the securities are held by the County's agent in the County's name -				
Uncategorized pooled investments	\$ 391,116	\$ 391,116	AAA	N/A
U.S. Treasury Bonds	<u>88,812</u>	<u>88,812</u>	AAA	.5 years
	<u>\$ 479,928</u>	<u>\$ 479,928</u>		

The investments of U.S. Treasury investments are not insured, but are backed by the full faith and credit of the Federal Government.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2007, rating information on the County's investments is presented above.

Interest rate risk

The County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing the investment portfolio with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Concentration of credit risk

The County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2007:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 6,327,224	\$ 1,156,226	\$ 454,285	\$ 7,937,735
Investments	<u>1,875,139</u>	<u>-</u>	<u>-</u>	<u>1,875,139</u>
	<u>\$ 8,202,363</u>	<u>\$ 1,156,226</u>	<u>\$ 454,285</u>	<u>\$ 9,812,874</u>

The primary government cash and cash equivalents caption on the Statement of Net Assets include \$1,976 in imprest cash and the component units have \$100 of imprest cash.

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government interfund receivables and payables at December 31, 2007:

Due to General Fund from:	
Treasurer's Unrestricted Fund	\$ 361,432
Nonmajor governmental funds	32
Internal service funds	<u>6</u>
	<u>\$ 361,470</u>
Due to Revenue Sharing Reserve Fund from:	
General Fund	<u>\$ 1,716,589</u>
Due to Treasurer's Unrestricted Fund from:	
Nonmajor governmental funds	<u>\$ 5,060</u>
Due to Delinquent Tax Revolving Fund from:	
Treasurer's Unrestricted Fund	<u>\$ 100</u>
Due to nonmajor governmental funds from:	
Treasurer's Unrestricted Fund	<u>\$ 16,000</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business-type funds, and component units have been eliminated.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE E: INTERFUND TRANSFERS - CONTINUED

Transfers to General Fund from:	
Revenue Sharing Fund	\$ 210,715
Treasurer's Unrestricted Fund	50,000
Delinquent Tax Revolving Fund	74,854
Nonmajor governmental funds	<u>597</u>
	<u>\$ 336,166</u>
Transfer to Jail TRV from:	
Nonmajor governmental funds	<u>\$ 2,200</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 388,695
Sheriff Road Patrol Fund	121,083
Nonmajor governmental funds	201,745
Treasurer's Unrestricted Fund	<u>219,032</u>
	<u>\$ 930,555</u>

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007, was as follows:

PRIMARY GOVERNMENT

	Balance Jan. 1, 2007	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2007
Governmental activities				
Capital assets not being depreciated				
Land and other nondepreciable assets	\$ 3,324,800	\$ -	\$(3,300,000)	\$ 24,800
Construction in progress	<u>1,705,188</u>	<u>128,008</u>	<u>(1,833,196)</u>	<u>-0-</u>
Total capital assets not being depreciated	5,029,988	128,008	(5,133,196)	24,800
Capital assets being depreciated				
Land improvements	98,002	-	-	98,002
Buildings and improvements	9,175,588	5,133,196	-	14,308,784
Furniture and equipment	813,499	115,863	(85,689)	843,673
Vehicles	<u>696,568</u>	<u>22,119</u>	<u>-</u>	<u>718,687</u>
Subtotal at historical cost	10,783,657	5,271,178	(85,689)	15,969,146
Less accumulated depreciation for:				
Land improvements	(58,531)	(8,717)	-	(67,248)
Buildings and improvements	(454,089)	(403,778)	-	(857,867)
Furniture and equipment	(795,491)	(133,871)	85,689	(843,673)
Vehicles	<u>(518,649)</u>	<u>(141,390)</u>	<u>-</u>	<u>(660,039)</u>
Subtotal at historical cost	<u>(1,826,760)</u>	<u>(687,756)</u>	<u>85,689</u>	<u>(2,428,827)</u>
Net capital assets being depreciated	<u>8,956,897</u>	<u>4,583,422</u>	<u>-0-</u>	<u>13,540,319</u>
Capital assets, net	<u>\$ 13,986,885</u>	<u>\$ 4,711,430</u>	<u>\$(5,133,196)</u>	<u>\$ 13,565,119</u>

Lake County, Michigan
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE F: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Depreciation expense was charged to the following governmental activities:

General government	\$ 98,518
Public safety	535,015
Health and welfare	51,789
Recreation and cultural	400
Community and economic development	<u>2,034</u>
Total depreciation expense	<u>\$ 687,756</u>

COMPONENT UNITS

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007
Component Unit - Road Commission				
Capital assets not being depreciated:				
Land	\$ 61,825	\$ -	\$ -	\$ 61,825
Construction in progress	8,903	-	(8,903)	-0-
Depletable assets	<u>29,709</u>	<u>-</u>	<u>-</u>	<u>29,709</u>
Subtotal at historical cost	100,437	-0-	(8,903)	91,534
Capital assets being depreciated:				
Buildings	1,363,180	5,069	-	1,368,249
Road equipment	4,322,090	14,016	-	4,336,106
Shop equipment	133,943	-	-	133,943
Engineering equipment	27,167	-	-	27,167
Yard and storage equipment	152,339	-	-	152,339
Office equipment	82,194	-	-	82,194
Infrastructure - roads	<u>1,776,421</u>	<u>766,465</u>	<u>-</u>	<u>2,542,886</u>
Subtotal at historical cost	7,857,334	785,550	-0-	8,642,884
Less accumulated depreciation for:				
Buildings	(506,181)	(38,591)	-	(544,772)
Road equipment	(3,702,640)	(249,618)	-	(3,952,258)
Shop equipment	(107,021)	(17,189)	-	(124,210)
Engineering equipment	(21,542)	(1,063)	-	(22,605)
Yard and storage equipment	(123,051)	(9,177)	-	(132,228)
Office equipment	(73,072)	(631)	-	(73,703)
Infrastructure - roads	<u>(476,623)</u>	<u>(91,788)</u>	<u>-</u>	<u>(568,411)</u>
Subtotal at historical cost	<u>(5,010,130)</u>	<u>(408,057)</u>	<u>-0-</u>	<u>(5,418,187)</u>
Net capital assets being depreciated	<u>2,847,204</u>	<u>377,493</u>	<u>-0-</u>	<u>3,224,697</u>
Capital assets, net	<u>\$ 2,947,641</u>	<u>\$ 377,493</u>	<u>\$ (8,903)</u>	<u>\$ 3,316,231</u>

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the County for the year ended December 31, 2007:

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007	Amounts Due Within One Year
PRIMARY GOVERNMENT					
1991 Building Authority Bonds	\$ 815,000	\$ -	\$(140,000)	\$ 675,000	\$ 150,000
1998 Building Authority Bonds	5,535,000	-	(148,000)	5,387,000	155,000
2005 USDA Building Authority Bonds	5,094,301	95,644	(186,804)	5,003,141	95,000
Accrued sick and vacation	174,782	284,966	(266,149)	193,599	48,400
TOTAL PRIMARY GOVERNMENT	11,619,083	380,610	(740,953)	11,258,740	448,400
COMPONENT UNITS					
Road Commission					
Installment purchase agreement	36,350	-	(36,350)	-0-	-
Accumulated compensated absences	141,652	87,734	(108,055)	121,331	23,934
TOTAL COMPONENT UNITS	178,002	87,734	(144,405)	121,331	23,934
TOTAL REPORTING ENTITY	\$11,797,085	\$ 468,344	\$(885,358)	\$11,380,071	\$ 472,334

PRIMARY GOVERNMENT

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Lake County is party to three (3) long-term lease agreements for rental of State of Michigan Family Independence Agency building, the Courthouse, and Jail from the Lake County Building Authority. These lease agreements stipulate that annual rentals will be paid by the County and the State government to the Building Authority in amounts sufficient to meet the annual principal and interest on bonds, which shall be pledged exclusively for that purpose. When all debt has been retired on these buildings, the rentals will cease, title to the buildings will be transferred to the County, and any cash balances remaining with the Building Authority will be returned to the County.

Bonds payable at December 31, 2007, are as follows:

\$2,000,000 Lake County Building Authority Bonds; Series 1991, dated January 1, 1991, due in annual installments ranging from \$150,000 to \$190,000 through October 1, 2011, with interest of 7.0 percent, payable semi-annually.	\$ 675,000
\$6,500,000 Lake County Building Authority Bonds; Series 1998, Bond No. 1, 2, and 3, dated June 30, 1998; due in annual installments ranging from \$155,000 to \$396,000 through June 1, 2028; with interest of 4.75 percent, payable semi-annually.	5,387,000
\$5,275,000 USDA Building Authority Bonds; Series 2005 A and B, dated May 2, 2005; due in annual installments ranging from \$95,000 to \$290,000 through June 1, 2035; with interest of 4.375 percent, payable semi-annually.	5,003,141
	<u>\$11,065,141</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE G: LONG-TERM DEBT - CONTINUED**Accumulated Vacation and Sick**

In accordance with County personnel policies and/or contracts negotiated with various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

The dollar amount of these vested rights, including related payroll taxes, amounted to \$193,599 at December 31, 2007.

The annual requirements to pay the long-term debt principal and interest outstanding for the following bonds of the primary government at December 31, 2007, are as follows:

Primary Government

Year Ending December 31,	<u>Direct County Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 400,000	\$ 523,961
2009	423,000	501,833
2010	450,000	478,406
2011	479,000	453,378
2012	302,000	426,653
2013-2017	1,725,000	1,909,946
2018-2022	2,160,000	1,470,566
2023-2027	2,705,000	920,664
2028-2032	1,633,000	351,386
2033-2035	<u>788,141</u>	<u>58,625</u>
	<u>\$ 11,065,141</u>	<u>\$ 7,095,418</u>

NOTE H: EMPLOYEE RETIREMENT SYSTEM**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)**

The County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time County employees are covered by the retirement system with exception of the Road Commission employees. The Road Commission employees are covered under a separate retirement plan.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

- Age 50 with 25 or more years of credited service
- Age 55 with 15 or more years of credited service
- Age 60 with 10 or more years of credited service (reduced to 8 or 6 years depending on benefits)
- Mandatory Retirement: None

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED****Deferred Retirement:**

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees hired prior to 1985 may be allowed to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The County is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2007, the County's annual pension cost of \$391,881 for the plan was equal to the County's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 4,662,926	\$ 5,136,196	\$ 5,809,738
Actuarial accrued liability (AAL) (entry age)	5,657,842	6,324,360	6,973,974
Unfunded AAL	994,916	1,188,164	1,164,236
Funded ratio	82%	81%	83%
Covered payroll	3,237,940	3,389,468	3,782,751
UAAL as a percentage of covered payroll	31%	35%	31%
Annual pension cost	322,529	363,925	391,881
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

COMPONENT UNIT - ROAD COMMISSION

Defined Benefit Pension Plan

Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 16.78% of annual covered payroll. The Road Commission employees are required to contribute 2% of their annual covered payroll to the plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$251,354 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2006, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 29 years.

Three Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2005	\$ 205,693	100 %	-
12/31/2006	235,315	100	-
12/31/2007	251,354	100	-

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

COMPONENT UNIT - ROAD COMMISSION - CONTINUED

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2004	\$ 4,854,999	\$ 6,781,539	\$ 1,926,540	72 %	\$ 1,180,521	163 %
12/31/2005	5,052,660	7,287,772	2,235,112	69	1,170,898	191
12/31/2006	5,305,502	7,585,093	2,279,591	70	1,274,704	179

NOTE I: POST-EMPLOYMENT HEALTH CARE BENEFITS

PRIMARY GOVERNMENT AND COMPONENT UNITS

In addition to providing pension benefits, the County provides certain health care benefits in accordance with union agreements and/or personnel policies to employees who have retired. For most retirees this is for the age of 60, but can retire at the age of 55 with the stipulated years of service. Single subscriber health insurance is provided at full cost to the County at the time of retirement with some stipulations. For some Sheriff Department retirees, the age is 50, and single subscriber health insurance is provided at 50% cost to the County with some stipulations. The pay as you go system of funding is used for the county portion of expense paid through the general fund. Currently, six (6) retirees meet the single subscriber health insurance requirements at full cost to the County, and one (1) retiree meets the single subscriber health insurance requirements at 50% cost to the County. One (1) retiree has continued on the county health plan at their own cost as the eligibility of providing a county cost occurred after retirement. During the year ended December 31, 2007, expenditures of \$16,999 were recognized for post-employment health care.

UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

NOTE J: CONTINGENT LIABILITIES

The County participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The Single Audit of the Federal programs and the periodic program compliance audits of many of the State programs have not yet been conducted, completed, or resolved. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE J: CONTINGENT LIABILITIES - CONTINUED

There are various other legal actions pending against the County and its component units. Due to the inconclusive nature of many of the actions, it is not possible for Corporation Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions, for which a reasonable estimate can be determined of the potential liability, if any, are considered by County and/or component unit management and legal counsel to be immaterial.

NOTE K: RISK MANAGEMENT

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

The County is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately.

The administration of the Authority is directed by a nine (9) member Board of Directors composed of municipal representatives from the membership elected by the membership. The Board establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered with the authority to impose sanctions or terminate membership. The County, by resolution of the County Board of Commissioners, has designated a representative to the Authority to be responsible for the execution of all loss control measures, to ensure the payment of all annual and supplementary or other payment requirements, to ensure the filing of all required reports, and to act as a liaison between the County and the Authority.

The Authority provides risk management, underwriting, reinsurance, and claim services with member contributions allocated to meet these obligations. The Authority administers a risk management fund providing Lake County with loss protection for general and auto liability, motor vehicle physical damage, and property damage. Under most circumstances the County's maximum loss per occurrence is limited as follows:

<u>Maximum Retention</u> <u>Type of Risk</u>	<u>Per Occurrence</u>
General and auto liability	\$ 75,000
Motor vehicle physical damage	30,000
Property and crime coverage	100,000

The Authority has established a Retained Risk Program to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that losses are incurred in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. The Authority may authorize dividends to individual members in the event that the members and individual fund balance is determined to be sufficient to do so.

Liability insurance claims are expensed as incurred. The liability is determined by the Michigan Municipal Risk Management Authority management based on an actuarial study performed using historical data and available insurance industry statistics. The liability includes a reserve for reported claims, and reported legal expenses as well as incurred, but not reported, claims.

The Authority has reserved fund balance to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that Lake County incurs a loss in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The County has not been informed of any special assessments being required.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE K: RISK MANAGEMENT - CONTINUED

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED

In addition, the Authority has accumulated resources to create and fund an internal Stop Loss Fund. The Stop Loss Fund was initiated to eliminate the need to purchase aggregate reinsurance for aggregate losses paid in excess of \$123,000, net of reinsurance recoveries for any one member in any one year. Aggregate paid losses in excess of \$123,000 net of reinsurance recoveries are paid entirely from the Internal Stop Loss Fund. If at any time the Stop Loss Fund is insufficient to fund Lake County's losses, the remaining liability shall become the responsibility of the Authority as a whole.

At December 31, 2007, the County had funds on deposit of \$7,810 with the Authority. In 2007, the County had \$18,811 in reported claims and legal fees.

The County also participates in a pool, the Michigan Counties' Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The County has not been informed of any special assessments being required.

COMPONENT UNIT - ROAD COMMISSION

Self-Insurance Pool

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of road, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

NOTE L: PROPERTY TAXES AND TAX RECEIVABLE

The County property tax is levied each December 1 and July 1 on the taxable valuation of property located in the County as of the preceding December 31.

Beginning with the 2004 tax levy the State mandated the creation of a Revenue Sharing Reserve fund into which one-third of the County's 2004 to 2006 ad valorem operating tax was recognized. The purpose of the fund was to accumulate reserves of the County's own local funds from which an amount similar to Revenue Sharing payments, formerly made by the State, will be made back to the General Fund. As part of this process, the County's tax levy was shifted over the three year period from winter to summer.

Taxable values are established annually by the local municipalities and are equalized by the County based on State statutes at an estimated percentage of the current market value. Real and personal property in Lake County for the 2007 levy had a taxable value of \$474,155,316 on which ad valorem taxes levied for County general operating purposes was 6.0397 mills. The Ambulance, Council on Aging, Sheriff Road Patrol, and Transportation Funds levied 1.2368, 0.6507, 2.6952, and 0.3828 mills, respectively.

Taxes are collected by the various tax collecting units from the date of the levy and remitted to the County through the Trust and Agency Fund for distribution to the General, Special Revenue, and Component Unit Funds. The property tax levied December 1 is accrued as current tax receivable with the appropriate deferral, and is budgeted as revenue in the subsequent year in the General; Ambulance and Sheriff Road Patrol (Special Revenue); and the Council on Aging (Component Unit) Fund.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE L: PROPERTY TAXES AND TAX RECEIVABLE - CONTINUED

Taxes receivable recorded in the respective funds at December 31, 2007, are as follows:

Taxes Receivable	General	Special Revenue		Component Unit	Enterprise		Totals
		Sheriff Road Patrol	Ambulance	Council on Aging	Delinquent Tax Revolving Funds	Treasurer's Unrestricted	
Current	\$ 422,776	\$ 1,174,877	\$ 539,137	\$ 283,656	\$ -	\$ -	\$ 2,420,446
Delinquent	-	-	-	-	1,104,087	36,412	1,140,499
	<u>\$ 422,776</u>	<u>\$ 1,174,877</u>	<u>\$ 539,137</u>	<u>\$ 283,656</u>	<u>\$ 1,104,087</u>	<u>\$ 36,412</u>	<u>\$ 3,560,945</u>

The delinquent taxes receivable represents unpaid real property taxes in the Enterprise Funds.

By agreement with the various taxing authorities, the County purchases at face value the real property taxes returned delinquent each March 1 and records a corresponding delinquent tax receivable.

These receivables are pledged to a bank for the payment of the notes payable, the proceeds of which were used to liquidate the amounts owed to the General and Special Revenue Funds and other taxing authorities. Subsequent collection on the delinquent taxes receivable, plus interest and administration fees thereon, and investment earnings are used to service the notes payable.

Any real property taxes not collected are charged back to the General and Special Revenue Funds and all other taxing authorities affected. Past experience has indicated that such chargebacks should not be material and, as a result there has been no establishment of an amount for uncollectible taxes receivable in any of the funds. This activity is accounted for in the Delinquent Tax Revolving Funds.

NOTE M: FUND DEFICITS

The following funds had a fund equity deficit at December 31, 2007:

	<u>Deficit</u>
PRIMARY GOVERNMENT	
Special Revenue Funds	
Child Care Probate	\$ 276
Village of Baldwin Officer	186
Jail TRV	252,545
Emergency 911	181,679
Friend of the Court	21,530
Crime Victims	6,185
Building Inspection	38,190

NOTE N: RESTATEMENT OF NET ASSETS

Beginning net assets at the government-wide level have been restated to reflect corrections of accounting errors. Delinquent taxes receivable had been understated by \$48,340 and overstated by \$40,781 in the Treasurer's Unrestricted Fund and Delinquent Tax Revolving Funds, respectively. The net adjustment of \$7,559 results in a restatement of net assets to \$4,861,470 as of December 31, 2006.

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE O: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance and net assets are used to earmark a portion of equity to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance and net assets indicates that portion of fund balance and net assets that the County has set aside for specific purposes.

The following are the various fund balance reserves as of December 31, 2007:

PRIMARY GOVERNMENT	
Nonmajor governmental funds	
Reserved for debt service	<u>\$ 501,611</u>

The following are the various fund balance designations as of December 31, 2007:

PRIMARY GOVERNMENT	
Designated for other purposes	
General Fund	
Designated for K-9 expenditures	<u>\$ 937</u>

The County has recorded various reserves of net assets in the proprietary funds that reflect management's plans for use of those funds. Since reserves are not appropriate for presentation on the face of the applicable government-wide Statement of Net Assets, the reserves are listed here.

The following is the net asset reserve as of December 31, 2007:

Internal Service Funds	
Reserved for employee benefits	<u>\$ 96,750</u>

NOTE P: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2007:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for	
Public safety	
K-9 expenditures	\$ 937
Sheriff Road Patrol	490,337
Yates Township Officer	11,046
E911 Wireless Service	377,188
Drug Law Enforcement	25,867
D.A.R.E. Program	18,629
Secondary Road Patrol	10,690
Criminal Justice Training	1,485
Local Officers Training	<u>7,098</u>
	<u>\$ 943,277</u>
Debt Service	<u>\$ 321,957</u>

Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE P: RESTRICTED NET ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Governmental activities - continued

Restricted for

Other purposes

Revenue Sharing	\$ 1,716,589
Ambulance	789,346
Register of Deeds Automation	52,256
Law Library	2,752
Circuit Court Marriage Council	<u>23,945</u>
	<u>\$ 2,584,888</u>

COMPONENT UNITS

Other purposes

Restricted for

County Roads

Aging Programs

Drainage Projects

County Roads	\$ 1,400,118
Aging Programs	217,528
Drainage Projects	<u>8,125</u>
	<u>\$ 1,625,771</u>

NOTE Q: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

In the body of the budgetary comparison schedules shown as required supplementary information to the financial statements, the County's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the County have been adopted at the activity level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended December 31, 2007, the County incurred expenditures in the General Fund and five (5) Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General Government			
Circuit Court	\$ 1,475	\$ 1,588	\$ 113
Legal costs and fees	16,000	90,839	74,839
Treasurer	182,188	185,003	2,815
Public Safety			
Marine safety	23,630	24,041	411
Transfers to other funds			
E911 Fund	-	172,695	172,695
Special Revenue Funds			
Village of Baldwin Officer	-	6,357	6,357
Building Inspection	268,195	468,583	200,388
Drug Law Enforcement	-	14,041	14,041
D.A.R.E. Program	66,750	70,753	4,003
Secondary Road Patrol	85,688	88,973	3,285

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE R: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund net assets. The effect on operations and other affected balances for the current and prior year are as follows:

PRIMARY GOVERNMENT

	December 31,		
	<u>2008</u>	<u>2007</u>	
Business-type Funds			
Treasurer's Unrestricted Fund			
Delinquent taxes receivable	\$ -	\$ 48,340	To correct understated
Revenues over (under) expenditures	-	48,340	delinquent taxes receivable
Net assets - beginning	48,340	-	
Delinquent Tax Revolving Funds			
Delinquent taxes receivable	\$ -	\$(40,781)	To correct overstated
Revenues over (under) expenditures	-	(40,781)	delinquent taxes receivable
Net assets - beginning	(40,781)	-	

REQUIRED SUPPLEMENTARY INFORMATION

Lake County, Michigan

General Fund

STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL

For the Year Ended December 31, 2007

REVENUES	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
Taxes				
Current and delinquent property taxes	\$ 2,666,033	\$ 2,666,033	\$ 2,665,712	\$ (321)
Payments in lieu of taxes	151,341	151,341	140,248	(11,093)
Total taxes	2,817,374	2,817,374	2,805,960	(11,414)
Licenses and permits				
Gun permits	800	800	624	(176)
Dog licenses	6,500	6,500	8,740	2,240
Marriage license fees	250	250	370	120
Total licenses and permits	7,550	7,550	9,734	2,184
Intergovernmental - Federal/State				
Probate Judge's salary	139,919	139,919	150,143	10,224
Circuit Court Judge's salary	8,687	8,687	6,516	(2,171)
Juvenile officer	27,317	27,317	27,317	-0-
District Court case flow assistance	4,700	4,700	3,901	(799)
Court equity	90,000	90,000	95,202	5,202
Voter aid registration	1,200	1,200	5,575	4,375
Cigarette tax	-	-	5,469	5,469
Marine safety	16,811	23,380	23,040	(340)
Snowmobile grant	-	15,356	15,355	(1)
ORV grant	35,088	30,300	19,315	(10,985)
Homeland security grants	-	16,000	16,000	-0-
D.H.S. grant - P.A.	9,000	9,000	53,172	44,172
Remonumentation	61,623	61,623	96,356	34,733
Convention and tourism tax	62,000	62,000	60,862	(1,138)
Liquor law enforcement	9,000	9,000	9,366	366
Federal food stamp program	300	300	1,219	919
Federal forest grant	4,500	7,000	7,000	-0-
Total intergovernmental - Federal/State	470,145	505,782	595,808	90,026
Charges for services				
Circuit Court costs	20,000	20,000	28,037	8,037
Circuit Court services	6,800	6,800	8,589	1,789
District Court costs	137,000	137,000	103,483	(33,517)
District Court services	56,000	56,000	53,029	(2,971)
Probate Court services	17,250	17,250	16,793	(457)
Bond processing fees	800	800	310	(490)
County Treasurer services	1,200	1,200	2,254	1,054

Lake County, Michigan

General Fund

STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL - CONTINUED

For the Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
Charges for services - continued				
County Clerk services	\$ 4,450	\$ 4,450	\$ 8,251	\$ 3,801
Register of Deeds services	155,000	155,000	155,295	295
Inmate housing	40,000	40,000	86,870	46,870
Sheriff department services	34,300	34,300	22,413	(11,887)
Administrative services	129,860	129,860	115,870	(13,990)
Other	5,200	5,200	4,395	(805)
Total charges for services	607,860	607,860	605,589	(2,271)
Fines and forfeits				
Bond forfeitures	8,000	8,000	9,110	1,110
Interest and rents				
Interest on investments	37,000	37,000	89,258	52,258
Other				
Donations	-	4,000	5,494	1,494
Sale of land	550	550	979	429
Insurance dividends	10,000	10,000	37,060	27,060
Reimbursements and refunds	29,900	29,900	23,952	(5,948)
Other	56,950	57,200	58,576	1,376
Total other	97,400	101,650	126,061	24,411
Total revenues	4,045,329	4,085,216	4,241,520	156,304
OTHER FINANCING SOURCES				
Transfers in				
Sheriff Road Patrol Fund	597	597	597	-0-
Revenue Sharing Reserve Fund	210,715	210,715	210,715	-0-
Treasurer's Unrestricted Fund	50,000	50,000	50,000	-0-
Delinquent Tax Revolving Fund	343,510	468,431	74,854	(393,577)
Total other financing sources	604,822	729,743	336,166	(393,577)
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 4,650,151</u>	<u>\$ 4,814,959</u>	<u>\$ 4,577,686</u>	<u>\$ (237,273)</u>

Lake County, Michigan

General Fund

STATEMENT OF EXPENDITURES AND OTHER FINANCING USES BY ACTIVITY -
BUDGET AND ACTUAL

For the Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Amended		
EXPENDITURES				
General government				
Board of Commissioners	\$ 218,168	\$ 225,951	\$ 214,113	\$ 11,838
Trial Court	757,741	773,218	735,619	37,599
Circuit Court	1,475	1,475	1,588	(113)
Jury board	2,600	2,600	592	2,008
Public guardian	6,873	6,873	6,862	11
Elections	13,421	13,421	12,175	1,246
Financial and I.T. Services	78,380	77,480	74,929	2,551
Legal costs and fees	16,000	16,000	90,839	(74,839)
Clerk	230,327	229,681	211,071	18,610
Equalization	239,158	241,988	238,455	3,533
Prosecuting Attorney	256,217	251,217	213,448	37,769
Register of Deeds	82,031	82,031	81,563	468
Surveying/Remonumentation	64,866	64,866	64,866	-0-
Central copying	23,250	23,250	5,274	17,976
Treasurer	180,217	182,188	185,003	(2,815)
Cooperative extension	64,126	59,884	56,321	3,563
Courthouse and grounds	422,307	431,157	417,512	13,645
Drain commissioner	1,000	1,000	384	616
Soil conservation	3,000	3,000	3,000	-0-
Total general government	2,661,157	2,687,280	2,613,614	73,666
Public safety				
Sheriff - general	227,741	231,741	218,130	13,611
Marine safety	16,811	23,630	24,041	(411)
Snowmobile safety	30,790	30,790	19,172	11,618
ORV	34,213	30,300	19,315	10,985
Traffic safety	4,500	7,000	7,000	-0-
Jail building and grounds	945,414	995,414	989,755	5,659
Animal control	123,421	123,421	107,868	15,553
Total public safety	1,382,890	1,442,296	1,385,281	57,015
Community and economic development				
Planning appropriation	3,760	19,760	19,360	400

Lake County, Michigan

General Fund

STATEMENT OF EXPENDITURES AND OTHER FINANCING USES BY ACTIVITY -
BUDGET AND ACTUAL - CONTINUED

For the Year Ended December 31, 2007

	Budgeted Amounts			Variance
	Original	Amended	Actual	Favorable (Unfavorable)
Health and welfare				
District Health department	\$ 74,363	\$ 76,090	\$ 73,739	\$ 2,351
Substance abuse appropriation	32,000	30,431	30,431	-0-
Medical examiner	42,775	42,775	39,095	3,680
Veterans burials	6,700	6,700	5,450	1,250
Mental Health	55,250	55,250	55,250	-0-
Department of Human Services	26,500	26,500	26,500	-0-
Total health and welfare	237,588	237,746	230,465	7,281
Other				
Postage	32,000	32,642	31,336	1,306
Other	32,696	30,129	16,715	13,414
Total other	64,696	62,771	48,051	14,720
Capital outlay	64,270	114,189	103,673	10,516
TOTAL EXPENDITURES	4,414,361	4,564,042	4,400,444	163,598
OTHER FINANCING USES				
Transfers to other funds				
Child Care Probate Fund	236,311	236,311	216,000	20,311
E911 Fund	-	-	172,695	(172,695)
TOTAL OTHER FINANCING USES	236,311	236,311	388,695	(152,384)
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 4,650,672	\$ 4,800,353	\$ 4,789,139	\$ 11,214

Lake County, Michigan

Sheriff Road Patrol

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 1,189,727	\$ 1,189,727	\$ 1,175,433	\$ (14,294)
Other	11,416	12,166	12,283	117
TOTAL REVENUES	1,201,143	1,201,893	1,187,716	(14,177)
EXPENDITURES				
Current				
Public safety	1,016,529	1,021,797	925,071	96,726
Capital outlay	69,225	75,225	74,281	944
TOTAL EXPENDITURES	1,085,754	1,097,022	999,352	97,670
EXCESS OF REVENUES OVER EXPENDITURES	115,389	104,871	188,364	83,493
OTHER FINANCING USES				
Transfer out	(115,389)	(115,389)	(121,083)	(5,694)
NET CHANGE IN FUND BALANCE	-0-	(10,518)	67,281	77,799
Fund balance, beginning of year	423,056	423,056	423,056	-0-
Fund balance, end of year	\$ 423,056	\$ 412,538	\$ 490,337	\$ 77,799

Lake County, Michigan

Jail TRV

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental - Federal/State	\$ 3,066,000	\$ 3,066,000	\$ 2,983,417	\$ (82,583)
Other	51,000	51,556	47,761	(3,795)
TOTAL REVENUES	3,117,000	3,117,556	3,031,178	(86,378)
EXPENDITURES				
Current				
Public safety	2,574,072	2,574,072	2,360,208	213,864
Capital outlay	6,000	6,556	45,762	(39,206)
Debt service	710,000	710,000	715,458	(5,458)
TOTAL EXPENDITURES	3,290,072	3,290,628	3,121,428	169,200
EXCESS OF REVENUES (UNDER) EXPENDITURES	(173,072)	(173,072)	(90,250)	82,822
OTHER FINANCING SOURCES				
Transfer in	173,072	173,072	2,200	(170,872)
NET CHANGE IN FUND BALANCE	-0-	-0-	(88,050)	(88,050)
Fund (deficit), beginning of year	(164,495)	(164,495)	(164,495)	-0-
Fund (deficit), end of year	<u>\$ (164,495)</u>	<u>\$ (164,495)</u>	<u>\$ (252,545)</u>	<u>\$ (88,050)</u>

Lake County, Michigan

Revenue Sharing Reserve

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 880,000	\$ 880,000	\$ -	\$ (880,000)
EXPENDITURES				
Current				
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-0-</u>
EXCESS OF REVENUES OVER EXPENDITURES	880,000	880,000	-0-	(880,000)
OTHER FINANCING USES				
Transfer out	<u>(210,715)</u>	<u>(210,715)</u>	<u>(210,715)</u>	<u>-0-</u>
NET CHANGE IN FUND BALANCE	669,285	669,285	(210,715)	(880,000)
Fund balance, beginning of year	<u>1,927,304</u>	<u>1,927,304</u>	<u>1,927,304</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 2,596,589</u>	<u>\$ 2,596,589</u>	<u>\$ 1,716,589</u>	<u>\$ (880,000)</u>

Lake County, Michigan

Ambulance

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 546,000	\$ 546,000	\$ 539,350	\$ (6,650)
Interest	1,000	1,000	-	(1,000)
TOTAL REVENUES	547,000	547,000	539,350	(7,650)
EXPENDITURES				
Current				
Health and welfare	415,393	415,393	315,109	100,284
EXCESS OF REVENUES OVER EXPENDITURES	131,607	131,607	224,241	92,634
OTHER FINANCING USES				
Transfer out	(131,607)	(131,607)	-	131,607
NET CHANGE IN FUND BALANCE	-0-	-0-	224,241	224,241
Fund balance, beginning of year	565,105	565,105	565,105	-0-
Fund balance, end of year	<u>\$ 565,105</u>	<u>\$ 565,105</u>	<u>\$ 789,346</u>	<u>\$ 224,241</u>

OTHER SUPPLEMENTARY INFORMATION

Lake County, Michigan
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
December 31, 2007

	Special		
	Village of Baldwin Officer	Pleasant Plains Township Officer	Yates Township Officer
ASSETS			
Cash and cash equivalents	\$ (186)	\$ (107)	\$ (2,427)
Investments	-	-	-
Receivables			
Accounts	-	-	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	-	-	-
Local	-	107	13,473
TOTAL ASSETS	<u>\$ (186)</u>	<u>\$ -0-</u>	<u>\$ 11,046</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	(186)	-	11,046
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICITS)	<u>(186)</u>	<u>-0-</u>	<u>11,046</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ (186)</u>	<u>\$ -0-</u>	<u>\$ 11,046</u>

Revenue					
Emergency 911	Education Grants	Friend of the Court	Special Services EZ/EC Pass Through Grant	Building Inspection	Register of Deeds Automation
\$ (190,423)	\$ 14,915	\$ (51,760)	\$ -	\$ (17,061)	\$ 52,256
-	-	-	-	-	-
-	-	-	-	10,500	-
-	-	-	-	-	-
23,506	-	34,909	132,320	-	-
-	-	-	-	-	-
<u>\$ (166,917)</u>	<u>\$ 14,915</u>	<u>\$ (16,851)</u>	<u>\$ 132,320</u>	<u>\$ (6,561)</u>	<u>\$ 52,256</u>
\$ 1,415	\$ -	\$ 515	\$ -	\$ 27,016	\$ -
13,347	-	4,132	-	4,613	-
-	-	-	132,320	-	-
-	-	32	-	-	-
-	-	-	-	-	-
14,762	-0-	4,679	132,320	31,629	-0-
-	-	-	-	-	-
(181,679)	14,915	(21,530)	-	(38,190)	52,256
-	-	-	-	-	-
<u>(181,679)</u>	<u>14,915</u>	<u>(21,530)</u>	<u>-0-</u>	<u>(38,190)</u>	<u>52,256</u>
<u>\$ (166,917)</u>	<u>\$ 14,915</u>	<u>\$ (16,851)</u>	<u>\$ 132,320</u>	<u>\$ (6,561)</u>	<u>\$ 52,256</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2007

	Special		
	Crime Victims	E911 Wireless Service	Drug Law Enforcement
ASSETS			
Cash and cash equivalents	\$ (5,176)	\$ 353,404	\$ 25,867
Investments	-	-	-
Receivables			
Accounts	-	-	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	-	23,784	-
Local	-	-	-
TOTAL ASSETS	<u>\$ (5,176)</u>	<u>\$ 377,188</u>	<u>\$ 25,867</u>
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued liabilities	1,009	-	-
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	1,009	-0-	-0-
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	(6,185)	377,188	25,867
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICITS)	<u>(6,185)</u>	<u>377,188</u>	<u>25,867</u>
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	<u>\$ (5,176)</u>	<u>\$ 377,188</u>	<u>\$ 25,867</u>

Revenue					
D.A.R.E. Program	Law Library	Secondary Road Patrol	2001 Housing Program	Criminal Justice Training Act	Local Officers Training
\$ 20,409	\$ (21,150)	\$ (8,445)	\$ 6,133	\$ 1,485	\$ 7,266
-	-	-	-	-	-
-	8,200	-	-	-	-
-	16,000	-	-	-	-
-	-	19,135	-	-	-
-	-	-	-	-	-
<u>\$ 20,409</u>	<u>\$ 3,050</u>	<u>\$ 10,690</u>	<u>\$ 6,133</u>	<u>\$ 1,485</u>	<u>\$ 7,266</u>
\$ -	\$ 298	\$ -	\$ -	\$ -	\$ 168
1,780	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,780	298	-0-	-0-	-0-	168
-	-	-	-	-	-
18,629	2,752	10,690	6,133	1,485	7,098
-	-	-	-	-	-
<u>18,629</u>	<u>2,752</u>	<u>10,690</u>	<u>6,133</u>	<u>1,485</u>	<u>7,098</u>
<u>\$ 20,409</u>	<u>\$ 3,050</u>	<u>\$ 10,690</u>	<u>\$ 6,133</u>	<u>\$ 1,485</u>	<u>\$ 7,266</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2007

	Special		
	Child Care Probate	Veteran's Trust	Circuit Court Marriage Council
ASSETS			
Cash and cash equivalents	\$ 3,449	\$ 503	\$ 23,945
Investments	10,000	-	-
Receivables			
Accounts	-	-	-
Due from other funds	-	-	-
Due from governmental units			
Federal/State	3,454	-	-
Local	-	-	-
TOTAL ASSETS	\$ 16,903	\$ 503	\$ 23,945
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ 14,587	\$ -	\$ -
Accrued liabilities	2,592	-	-
Due to other governmental units - Federal/State	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	17,179	-0-	-0-
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	-
Unreserved, reported in:			
Special revenue funds	(276)	503	23,945
Capital projects funds	-	-	-
TOTAL FUND BALANCES (DEFICITS)	(276)	503	23,945
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 16,903	\$ 503	\$ 23,945

Revenue		Debt Service	Capital Projects		
Inmate Social Security	D.H.S. Building	Building Authority	Ambulance Equipment Replacement	Other County Property	Courthouse Jail Renovation
\$ 4,167	\$ 143,735	\$ 348	\$ 405,057	\$ 169,742	\$ 2
-	-	501,263	-	-	13,716
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	4,415	-
-	-	-	-	-	-
<u>\$ 4,167</u>	<u>\$ 143,735</u>	<u>\$ 501,611</u>	<u>\$ 405,057</u>	<u>\$ 174,157</u>	<u>\$ 13,718</u>
\$ -	\$ 125	\$ -	\$ -	\$ -	\$ -
-	234	-	-	2,500	-
-	-	-	-	-	-
-	-	-	-	5,060	-
-	-	-	-	4,415	-
-0-	359	-0-	-0-	11,975	-0-
-	-	501,611	-	-	-
4,167	143,376	-	-	-	-
-	-	-	405,057	162,182	13,718
<u>4,167</u>	<u>143,376</u>	<u>501,611</u>	<u>405,057</u>	<u>162,182</u>	<u>13,718</u>
<u>\$ 4,167</u>	<u>\$ 143,735</u>	<u>\$ 501,611</u>	<u>\$ 405,057</u>	<u>\$ 174,157</u>	<u>\$ 13,718</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2007

	Capital Projects		Total Nonmajor Governmental Funds
	Capital Improvements	TRV Capital Project	
ASSETS			
Cash and cash equivalents	\$ 78,898	\$ 2,341	\$ 1,017,187
Investments	-	-	524,979
Receivables			
Accounts	-	-	18,700
Due from other funds	-	-	16,000
Due from governmental units			
Federal/State	-	-	241,523
Local	-	-	13,580
TOTAL ASSETS	\$ 78,898	\$ 2,341	\$ 1,831,969
LIABILITIES AND FUND BALANCES (DEFICITS)			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 44,124
Accrued liabilities	-	-	30,207
Due to other governmental units - Federal/State	-	-	132,320
Due to other funds	-	-	5,092
Deferred revenue	-	-	4,415
TOTAL LIABILITIES	-0-	-0-	216,158
FUND BALANCES (DEFICITS)			
Reserved for Debt Service	-	-	501,611
Unreserved, reported in:			
Special revenue funds	-	-	452,004
Capital projects funds	78,898	2,341	662,196
TOTAL FUND BALANCES (DEFICITS)	78,898	2,341	1,615,811
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 78,898	\$ 2,341	\$ 1,831,969

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended December 31, 2007

	Special		
	Village of Baldwin Officer	Pleasant Plains Township Officer	Yates Township Officer
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ -	\$ -
Charges for services	6,171	-	11,936
Interest and rents	-	-	-
Other	-	-	-
TOTAL REVENUES	6,171	-0-	11,936
EXPENDITURES			
Current			
General government	-	-	-
Public safety	6,357	-	29,971
Health and welfare	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	6,357	-0-	29,971
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(186)	-0-	(18,035)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Transfers in	-	-	29,077
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	29,077
NET CHANGE IN FUND BALANCES	(186)	-0-	11,042
Fund balances (deficits), beginning of year	-	-	4
Fund balances (deficits), end of year	\$ (186)	\$ -0-	\$ 11,046

Revenue					
Emergency 911	Education Grants	Friend of the Court	Special Services EZ/EC Pass Through Grant	Building Inspection	Register of Deeds Automation
\$ 9,666	\$ -	\$ 137,325	\$ 27,018	\$ 192,935	\$ -
319,963	-	10,411	-	248,626	33,385
-	-	-	-	-	-
3,685	-	-	-	-	-
333,314	-0-	147,736	27,018	441,561	33,385
-	-	171,175	-	-	24,130
482,747	-	-	-	468,293	-
-	-	-	27,018	-	-
9,517	-	-	-	290	-
-	-	-	-	-	-
492,264	-0-	171,175	27,018	468,583	24,130
(158,950)	-0-	(23,439)	-0-	(27,022)	9,255
-	-	-	-	-	-
172,695	-	-	-	-	-
-	-	-	-	-	-
172,695	-0-	-0-	-0-	-0-	-0-
13,745	-0-	(23,439)	-0-	(27,022)	9,255
(195,424)	14,915	1,909	-	(11,168)	43,001
<u>\$ (181,679)</u>	<u>\$ 14,915</u>	<u>\$ (21,530)</u>	<u>\$ -0-</u>	<u>\$ (38,190)</u>	<u>\$ 52,256</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2007

	Special		
	Crime Victims	E911 Wireless Service	Drug Law Enforcement
REVENUES			
Intergovernmental			
Federal/State	\$ 25,044	\$ -	\$ -
Charges for services	-	106,038	-
Interest and rents	-	-	-
Other	-	-	6,830
TOTAL REVENUES	25,044	106,038	6,830
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	17,493	12,749
Health and welfare	32,560	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	32,560	17,493	12,749
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(7,516)	88,545	(5,919)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Transfers in	-	-	-
Transfers out	-	-	(1,292)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	(1,292)
NET CHANGE IN FUND BALANCES	(7,516)	88,545	(7,211)
Fund balances (deficits), beginning of year	1,331	288,643	33,078
Fund balances (deficits), end of year	\$ (6,185)	\$ 377,188	\$ 25,867

Revenue					
D.A.R.E. Program	Law Library	Secondary Road Patrol	2001 Housing Program	Criminal Justice Training Act	Local Officers Training
\$ 4,500	\$ -	\$ 58,283	\$ -	\$ 3,675	\$ -
-	5,000	-	75	-	3,101
-	-	-	-	-	-
6,278	-	-	-	-	-
10,778	5,000	58,283	75	3,675	3,101
-	7,711	-	-	-	-
70,753	-	88,973	-	3,424	1,863
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
70,753	7,711	88,973	-0-	3,424	1,863
(59,975)	(2,711)	(30,690)	75	251	1,238
-	-	-	-	-	-
62,250	-	30,451	-	-	-
-	-	-	-	-	(2,200)
62,250	-0-	30,451	-0-	-0-	(2,200)
2,275	(2,711)	(239)	75	251	(962)
16,354	5,463	10,929	6,058	1,234	8,060
\$ 18,629	\$ 2,752	\$ 10,690	\$ 6,133	\$ 1,485	\$ 7,098

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2007

	Special		
	Child Care Probate	Veteran's Trust	Circuit Court Marriage Council
REVENUES			
Intergovernmental			
Federal/State	\$ 230,965	\$ 638	\$ -
Charges for services	16,273	-	940
Interest and rents	-	-	-
Other	-	-	-
TOTAL REVENUES	247,238	638	940
EXPENDITURES			
Current			
General government	-	675	-
Public safety	-	-	-
Health and welfare	463,514	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	463,514	675	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(216,276)	(37)	940
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Transfers in	435,032	-	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	435,032	-0-	-0-
NET CHANGE IN FUND BALANCES	218,756	(37)	940
Fund balances (deficits), beginning of year	(219,032)	540	23,005
Fund balances (deficits), end of year	\$ (276)	\$ 503	\$ 23,945

Revenue		Debt Service	Capital Projects		
Inmate Social Security	D.H.S. Building	Building Authority	Ambulance Equipment Replacement	Other County Property	Courthouse Jail Renovation
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
143	227,926	8,222	-	4,415	-
-	-	-	-	-	-
143	227,926	8,222	-0-	4,415	-0-
-	-	3,905	-	-	-
-	-	-	-	-	-
-	30,034	-	-	-	-
-	-	-	-	-	-
-	-	197,050	-	-	-
-0-	30,034	200,955	-0-	-0-	-0-
143	197,892	(192,733)	-0-	4,415	-0-
-	-	-	-	-	-
-	-	201,050	-	-	-
-	(201,050)	-	-	-	-
-0-	(201,050)	201,050	-0-	-0-	-0-
143	(3,158)	8,317	-0-	4,415	-0-
4,024	146,534	493,294	405,057	157,767	13,718
<u>\$ 4,167</u>	<u>\$ 143,376</u>	<u>\$ 501,611</u>	<u>\$ 405,057</u>	<u>\$ 162,182</u>	<u>\$ 13,718</u>

Lake County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2007

	Capital Projects		Total Nonmajor Governmental Funds
	Capital Improvements	TRV Capital Project	
REVENUES			
Intergovernmental			
Federal/State	\$ -	\$ -	\$ 690,049
Charges for services	-	-	761,919
Interest and rents	-	270	240,976
Other	7,929	-	24,722
TOTAL REVENUES	7,929	270	1,717,666
EXPENDITURES			
Current			
General government	2,556	-	210,152
Public safety	-	-	1,182,623
Health and welfare	-	-	553,126
Capital outlay	-	1,769	11,576
Debt service	-	91,804	288,854
TOTAL EXPENDITURES	2,556	93,573	2,246,331
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,373	(93,303)	(528,665)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	95,644	95,644
Transfers in	-	-	930,555
Transfers out	-	-	(204,542)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	95,644	821,657
NET CHANGE IN FUND BALANCES	5,373	2,341	292,992
Fund balances (deficits), beginning of year	73,525	-	1,322,819
Fund balances (deficits), end of year	\$ 78,898	\$ 2,341	\$ 1,615,811

Lake County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF NET ASSETS

Year Ended December 31, 2007

	<u>Treasurer's Administrative</u>	<u>Commissary</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 33,310	\$ 35,033	\$ 68,343
Accounts receivable	<u>-</u>	<u>22,500</u>	<u>22,500</u>
TOTAL ASSETS	33,310	57,533	90,843
LIABILITIES			
Current liabilities			
Accounts payable	<u>-</u>	<u>3,735</u>	<u>3,735</u>
NET ASSETS			
Unrestricted	<u>\$ 33,310</u>	<u>\$ 53,798</u>	<u>\$ 87,108</u>

Lake County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2007

	<u>Treasurer's Administrative</u>	<u>Commissary</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ -	\$ 138,025	\$ 138,025
Other	<u>7,492</u>	<u>-</u>	<u>7,492</u>
TOTAL OPERATING REVENUES	7,492	138,025	145,517
OPERATING EXPENSES			
Other	<u>2,801</u>	<u>109,637</u>	<u>112,438</u>
OPERATING INCOME	4,691	28,388	33,079
NONOPERATING REVENUES			
Interest revenue	<u>1,098</u>	<u>-</u>	<u>1,098</u>
CHANGE IN NET ASSETS	5,789	28,388	34,177
Net assets, beginning of year	<u>27,521</u>	<u>25,410</u>	<u>52,931</u>
Net assets, end of year	<u>\$ 33,310</u>	<u>\$ 53,798</u>	<u>\$ 87,108</u>

Lake County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2007

	Treasurer's Administrative	Commissary	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 7,492	\$ 139,525	\$ 147,017
Cash paid to suppliers	(2,801)	(111,849)	(114,650)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,691	27,676	32,367
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	1,098	-	1,098
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,789	27,676	33,465
Cash and cash equivalents, beginning of year	27,521	7,357	34,878
Cash and cash equivalents, end of year	\$ 33,310	\$ 35,033	\$ 68,343
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 4,691	\$ 28,388	\$ 33,079
Adjustments to reconcile operating income to net cash provided by operating activities			
Decrease in accounts receivable	-	1,500	1,500
(Decrease) in accounts payable	-	(2,212)	(2,212)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,691	\$ 27,676	\$ 32,367

Lake County, Michigan

Internal Service Funds

COMBINING STATEMENT OF NET ASSETS

December 31, 2007

	Central Stores	Employee Benefit Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ (4,326)	\$ 97,100	\$ 92,774
Inventories	9,831	-	9,831
TOTAL ASSETS	5,505	97,100	102,605
LIABILITIES			
Current liabilities			
Accounts payable	-	344	344
Due to other funds	-	6	6
TOTAL LIABILITIES	-0-	350	350
NET ASSETS			
Restricted for employee benefits	-	96,750	96,750
Unrestricted	5,505	-	5,505
TOTAL NET ASSETS	\$ 5,505	\$ 96,750	\$ 102,255

Lake County, Michigan

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2007

	Central Stores	Employee Benefit Fund	Total
OPERATING REVENUES			
Charges for services	\$ 21,514	\$ 1,973,980	\$ 1,995,494
OPERATING EXPENSES			
Personal services and fringes	-	2,029,850	2,029,850
Supplies	24,852	-	24,852
TOTAL OPERATING EXPENSES	24,852	2,029,850	2,054,702
CHANGE IN NET ASSETS	(3,338)	(55,870)	(59,208)
Net assets, beginning of year	8,843	152,620	161,463
Net assets, end of year	\$ 5,505	\$ 96,750	\$ 102,255

Lake County, Michigan

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2007

	Central Stores	Employee Benefit Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from users	\$ 21,855	\$ 1,973,980	\$ 1,995,835
Cash paid to suppliers	(24,881)	-	(24,881)
Cash paid for employee benefits	-	(2,029,506)	(2,029,506)
NET CASH (USED) BY OPERATING ACTIVITIES	(3,026)	(55,526)	(58,552)
Cash and cash equivalents, beginning of year	(1,300)	152,626	151,326
Cash and cash equivalents, end of year	<u>\$ (4,326)</u>	<u>\$ 97,100</u>	<u>\$ 92,774</u>
Reconciliation of operating (loss) to net cash (used) by operating activities			
Operating (loss)	\$ (3,338)	\$ (55,870)	\$ (59,208)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities			
Decrease in due from other funds	341	-	341
Increase (decrease) in accounts payable	(29)	344	315
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (3,026)</u>	<u>\$ (55,526)</u>	<u>\$ (58,552)</u>

Lake County, Michigan

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

December 31, 2007

	Agency Funds			
	Trust and Agency	Library Penal	Transportation Millage Fund	Total
ASSETS				
Cash and cash equivalents	\$ 407,404	\$ 28,426	\$ 18,455	\$ 454,285
Due from governmental units - State	36,113	-	-	36,113
TOTAL ASSETS	<u>443,517</u>	<u>28,426</u>	<u>18,455</u>	<u>490,398</u>
LIABILITIES				
Undistributed collections payable	\$ 60,531	\$ 28,426	\$ 18,455	\$ 107,412
Deposits payable	48,168	-	-	48,168
Due to other governmental units				
Federal/State	248,479	-	-	248,479
Local	34,325	-	-	34,325
Due to others	52,014	-	-	52,014
TOTAL LIABILITIES	<u>\$ 443,517</u>	<u>\$ 28,426</u>	<u>\$ 18,455</u>	<u>\$ 490,398</u>

Lake County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - DRAINAGE DISTRICTS

December 31, 2007

	<u>Capital Projects</u>		
	<u>Big Star Lake Level Revolving</u>	<u>Wolf Lake Level Revolving</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	<u>\$ 5,150</u>	<u>\$ 2,975</u>	<u>\$ 8,125</u>
FUND BALANCES			
Unreserved			
Undesignated - reported in capital projects	<u>\$ 5,150</u>	<u>\$ 2,975</u>	<u>\$ 8,125</u>

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net assets for this component unit is not required as the component unit's fund balance was equal to the component unit's net assets as of December 31, 2007.

Lake County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - DRAINAGE DISTRICTS

For the Year Ended December 31, 2007

	Capital Projects		Total
	Big Star Lake Level Revolving	Wolf Lake Level Revolving	
REVENUES			
Interest	\$ 215	\$ 104	\$ 319
Other	2,392	-	2,392
TOTAL REVENUES	2,607	104	2,711
EXPENDITURES			
Current			
Public works	2,426	-	2,426
NET CHANGE IN FUND BALANCES	181	104	285
Fund balances, beginning of year	4,969	2,871	7,840
Fund balances, end of year	\$ 5,150	\$ 2,975	\$ 8,125

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended December 31, 2007.

Lake County, Michigan

Component Unit Funds

BALANCE SHEET - COUNCIL ON AGING

December 31, 2007

	Special Revenue
ASSETS	
Cash and cash equivalents	\$ 238,237
Taxes receivable	<u>283,656</u>
TOTAL ASSETS	<u>\$ 521,893</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Deferred revenue	\$ 304,365
FUND BALANCE	
Fund balance	
Unreserved undesignated	<u>217,528</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 521,893</u>

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net assets for this component unit is not required as the component unit's fund balance was equal to the component unit's net assets as of December 31, 2007.

Lake County, Michigan

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - COUNCIL ON AGING

For the Year Ended December 31, 2007

	Special Revenue
REVENUES	
Taxes	\$ 283,752
EXPENDITURES	
Health and welfare	232,059
CHANGE IN FUND BALANCE	51,693
Fund balance, beginning of year	165,835
Fund balance, end of year	\$ 217,528

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended December 31, 2007.

Principals

Dale J. Abraham, CPA
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Steven R. Kirinovic, CPA
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
of Lake County
Baldwin, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Lake County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the County's internal controls. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

2006-1 PREPARATION OF FINANCIAL STATEMENTS

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls. This issue was noted and reported in our comments last year.

2006-1 PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

Criteria: All Michigan governments are required to prepare financial statements in accordance with GAAP. This is a responsibility of the government's management. The preparation of financial statement in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government lacks internal controls over the preparation of financial statements and notes to the financial statements in accordance with GAAP. The County relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Recommendation: Statement on Auditing Standards No. 112 titled "*Communicating Internal Control Related Matters Identified in an Audit*", requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. We are communicating these circumstances as required by professional standards; however, we do not see a need for any changes in the situation at this time.

Corrective Action Response: Management of the County is currently reviewing procedures related to obtaining sufficient knowledge in order for the County to better understand their audited financial statements and work towards gaining the expertise to prepare their statements in accordance with GAAP.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the following significant deficiencies to be material weaknesses, as defined above.

2006-2 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the proper recognition of various items throughout the general ledger were proposed by the auditors. These misstatements were not detected by the County's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the County's general ledger. This issue was noted and reported in our audit comments last year.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles. In addition, all year-end accruals should be recorded prior to audit fieldwork beginning. The auditor cannot be a part of internal controls.

Cause: The County's current accounting process for closing a year and preparing for the audit does not include assuring all journal entries are recorded for the appropriate amounts.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the County's internal controls.

Recommendation: We recommend that the County take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: Management of the County is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

2006-3 FUND DEFICITS

Condition: During the course of our audit, it was noted that the County had seven (7) funds that ended the year in a deficit financial position, compared to four (4) funds in the prior year. It was further noted that two (2) of these funds that reported a deficit financial position in the prior year suffered a further decrease in fund balance during the current year. This issue was noted and reported in our comments last year.

Criteria: Michigan Public Act 275 of 1980 provides that the County shall not have deficits in one or more of the County's unreserved fund balances/unrestricted net assets.

Cause: Budgetary controls to limit expenditures and/or transfers of funds were not made to alleviate deficits in these funds.

Effect: The County will be required to submit a deficit reduction plan to the State of Michigan for any funds for which a plan has not previously been filed.

Recommendation: We recommend that the County file a corrective action plan with the State of Michigan.

Corrective Action Response: Management of the County is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

2006-5 RECONCILIATION OF DELINQUENT TAXES RECEIVABLE

Condition: During our analysis of the County's delinquent tax receivable accounts, we noted that while the County's subsidiary ledger balances agreed with the computerized subsidiary tax software, these reports did not agree with the balances recorded in the County's computerized general ledger. The reconciliation of these accounts to the general ledger was completed by County staff during our audit fieldwork. This issue was noted and reported in our comments last year.

Criteria: Delinquent taxes receivable should be reconciled on a regular basis, preferably monthly. This reconciliation should include assuring that all three records (general ledger, subsidiary ledger, and computerized subsidiary tax software) are in agreement.

Cause: Through discussions with management it was noted that spreadsheets used to spread delinquent tax payments contained formula errors that, among other items, caused errors in postings in the general ledger.

Effect: The delinquent tax receivable balances did not agree at the beginning of our audit fieldwork to the County's computerized general ledger for several of the tax years that were analyzed.

Recommendation: We recommend the County reconcile the delinquent tax receivable balances in the computerized general ledger to detailed supporting documentation on a periodic and regular basis.

Corrective Action Response: Management of the County is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

2007-1 RESTATEMENT OF NET ASSETS/PRIOR PERIOD ADJUSTMENTS

Condition: During the course of our audit, it was noted that previously issued financial statements were materially misstated. A restatement of beginning net assets at the government-wide level and prior period adjustments to correct net assets at the fund level were recorded to reflect the correction of misstated receivables.

Criteria: These errors were not detected by the County's internal control over financial reporting in the prior year and as a result there was a material misstatement in the December 31, 2006 financial statements.

Cause: Material misstatements were not noted by Management in the previously issued financial statements.

Effect: Since these errors were not detected by the County's internal control over financial reporting in the prior year, the County's internal controls did not effectively allow management to detect material misstatements in the County's financial statements in a timely manner.

Recommendation: We recommend the County review procedures related to the review of financial reporting and take steps to ensure that similar issues do not occur in the future.

2007-1 RESTATEMENT OF NET ASSETS/PRIOR PERIOD ADJUSTMENTS - CONTINUED

Corrective Action Response: The County will review all financial procedures to assure that these types of adjustments are not necessary in the future.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

2007-2 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the County's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund and several Special Revenue Funds. It was also noted that the County budgeted for a deficit fund balance in one of the Special Revenue Funds. This issue was noted and reported in our comments last year.

Criteria: The Uniform Budgeting and Accounting Act requires that the County adopt a budget for the General Fund and all Special Revenue Funds and prohibits budgeting for a deficit fund balance. It also requires the County to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Cause: The County's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund and Special Revenue Funds.

Effect: The County adopted the budget for the General Fund at the activity level and at the total fund level for the Special Revenue Funds. Having unfavorable budget variances as described above, the County is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the County monitor expenditures against adopted budgets in all applicable funds and make appropriated budget adjustments as needed.

Corrective Action Response: Management of the County is currently reviewing procedures related to budgetary compliance in accordance with State law.

The County's responses to the findings identified in our audit are described above. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Commissioners of Lake County, others within the County, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 31, 2008